86-480

No. 86-

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

October Term, 1986

DARBY DENTAL SUPPLY COMPANY, INC., DENTAL WHOLESALERS, INC. and SPENCER MEADE DENTAL, INC.,

Petitioners,

against

PREMIER DENTAL PRODUCTS COMPANY,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

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PETITION FOR A WRIT OF CERTIORAI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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Questions Presented

1. A foreign manufacturer has asigned a United States trademark to its exclusive American distributor for no consideration; the assignment states it was made for the sole purpose of suing other importers; the foreign manufacturer maintains control of the quality of the product and the use of the trademark; and the assignment can be revoked at will by the foreign manufacturer: *query,* does the American distributor possess the requisite ownership interest in the trademark to invoke Section 526 of the Tariff Act and bar the importation by others of the foreign manufacturers' goods bearing the trademark affixed to the goods by the manufacturer?

2. Does the importation and sale of goods bearing a trademark owned by an American company without its consent cause irreparable harm where the goods are identical to those imported and sold by the American trademark owner?

3. Should the Circuit Court below have remanded the case to the District Court for reconsideration of the issue of irreparable harm, rather than making factual findings in conflict with those of the District Court and affirming the decision of the District Court on a ground not raised or relied on by the District Court?

Parties to the Proceedings Below

The parties named in the caption are the only parties to this action.

Pursuant to Supreme Court Rule 28.1, petitioners Darby Dental Supply Company, Inc., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc. identify their parent companies, subsidiaries and affiliates as follows:

Darby Drug Co., Inc.
Rugby Laboratories, Inc.
Modern Wholesale Drug Co., Inc.
Modern Wholesale Drug Texas, Inc.
Modern Wholesale Drug Southern, Inc.
Modern Wholesale Drug Midwest, Inc.
Modern Wholesale Drug Atlanta, Inc.
Modern Wholesale Drug Western, Inc.
Modern Wholesale Drug, Cleveland, Inc.
Spencer-Mead, Inc.
Chelsea Laboratories, Inc.
Chelsea Laboratories Caribe, Inc.
Modern Medical Supply Co., Inc.
Dental Wholesale, Inc.
Barth Spencer Corp.
Burns Veterinary Supply, Inc.
(a New York corporation)
Burns Veterinary Supply, Inc.
(a Texas corporation)
Burns Veterinary Supply, Inc.
(an Illinois corporation)
Burns Veterinary Supply, Inc.
(a Florida corporation)
Burns Veterinary Supply, Inc.
(a California corporation)
Carlisle Laboratories, Inc.

City Dental Supply Corporation
Concord Dental Products Co., Inc.
Darby Dental Laboratory Supply Co., Inc.
Darby Drug Western
Darby Group Companies, Inc.
Hadro Drugs, Inc.
J. & A. Advertising, Inc.
Levitt Dental Supply, Inc.
Naska Pharmacal, Inc.
Nationwide Nutrition Co., Inc.
Orbident International, Inc.
Rugby Dental Manufacturing Co., Inc.
RVP Vitamin Products, Inc.
RVP Vitamin Products Western, Inc.
Sherry Dental Supply Co., Inc.
Sherry Pharmaceutical Supply Co., Inc.
University Dental Supply Co., Inc.
Westchester Dental Depot, Inc.

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b. The decision of the Third Circuit in this case, and District of Columbia Circuit in the *COPIAT* case, are in conflict with the decisions of the Federal Circuit in the *Vivitar* case and the Second Circuit in the *Olympus* case on the same matter, to wit: the Third Circuit and the District of Columbia Circuit have ruled that the trademark ownership requirement of Section 526 of the Tariff Act, 19 U.S.C. 1526, is satisfied by evidence of a written assignment from a foreign assignor regardless of the relationship of the assignor to the assignee or the lack of bona fide, beneficial ownership in the assignee; while the Federal Circuit and the Second Circuit have ruled that an assignee of the Trademark must show that it is the bona fide, beneficial owner of the trademark and is not affiliated with or controlled by the foreign assignor 11

c. The question of whether a trademark assignee must show a bona fide, beneficial ownership interest in a trademark, and independence from the trademark assignor, in order to satisfy the trademark ownership requirement of Section 526 of the Tariff Act, is an important question of federal law which has not been, but should be, settled by this Court 11

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a. In this case the Third Circuit has ruled that the respondent will suffer irreparable harm and is therefore entitled to a preliminary injunction due to petitioners' importation of products bearing a trademark owned by the respondent in the United States, although the products imported and sold by petitioners and respondent are identical and are made by the same foreign manufacturer who owns the trademark in the country of manufacture where it affixes the trademark to the goods imported by both the petitioners and the respondent 22

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On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

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PETITION FOR A WRIT OF CERTIORAI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Petitioner hereby requests that this Court issue a writ of certiorari to review a judgment of the United States Court of Appeals for the Third Circuit entered June 24, 1986.

Opinion Below

The opinion of the United States Court of Appeals for the Third Circuit, which is reported at 794 F.2d 850 (1986) is reprinted as Appendix A (1a-21a). The opinion of the United States District Court, Eastern District of Pennsylvania, which is unreported, is reprinted in Appendix C (27a-39a).

Jurisdiction

Review of the Court of Appeals judgment affirming the district court is within this Court's jurisdiction under 28 U.S.C. 1254(1). The Courts below had jurisdiction premised on 28 U.S.C. 1338(a).

Statutes and Regulations Cited

Title 19 United States Code Section 526 (19 U.S.C. 1526)

Title 19 Code of Federal Regulations Section 133.21

The text of these provisions is set forth in Appendix D (40a-44a).

Statement of the Case

This is one of the "gray goods" or "parallel imports" cases which have been the subject of intense controversy in recent years. Gray goods, or parallel imports, are genuine products of foreign manufacture which are imported by a company other than the foreign manufacturer's designated distributor in the United States.

A West German manufacturer, ESPE Fabrik Pharmazeutischer Praparate, GmbH ("ESPE") is the sole manufacturer of a patented polyether dental impression material sold under the trademark "Impregum". (1a-2a). ESPE registered the trademark in the United States in 1968. (29a).

In 1974 ESPE designated the respondent, Premier Dental Products Company ("Premier"), to be ESPE's exclusive United States distributor of Impregum. (2a). Premier sells dental products to distributors who in turn sell the products to dentists. (28a). Premier does not sell directly to dentists. (29a).

Petitioners, Darby Dental Supply Company Inc., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc. ("Darby") are mail order suppliers who sell dental products and equipment to dentists. (2a). From the late 1970's through 1982 Darby bought Impregum from Premier. (2a). In 1983 Darby began buying genuine Impregum in Europe from other ESPE Impregum distributors and importing it into the United States, rather than pay the higher prices charged by Premier. (2a).

When Darby began importing Impregum from European countries ESPE and Premier tried to devise a plan to halt Darby's importation of Impregum. Premier could not charge Darby with trademark infringement under the Lanham Act (15 U.S.C. 1114, 1124, 1125) or violation of the Tariff Act (19 U.S.C. 1526) because Premier did not own the trademark. ESPE could not charge Darby with trademark infringement because ESPE had sold the very Impregum Darby was importing,* and ESPE could not charge

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* See *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 44 S. Ct. 350, 68 L. Ed. 731 (1924).

Darby under the Tariff Act because ESPE is not a United States citizen or a corporation created or organized within the United States (19 U.S.C. 1526(a)).

On June 20, 1984 ESPE and Premier implemented a plan they hoped could stop Darby's importation of Impregum while keeping control of the trademark and the product firmly in ESPE's hands. They entered into an "assignment" which purported to transfer the United States trademark in Impregum to Premier without consideration for, "the purpose . . . [of permitting] Premier to act against infringers and unauthorized importers of Impregum . . .". (Paragraph 4 of the assignment agreement, see p. 6 *infra.*) (3a). Premier paid nothing for the trademark, the assignment was terminable at will by ESPE on thirty-days notice and the trademark could be used only on ESPE's products over which Premier had no quality control.

This "assignment", which cost Premeir nothing (31a) and transferred no power or control over the trademark or the product from ESPE to Premier, (12a-13a) is the basis for making Darby's actions illegal after June 20, 1984, whereas they had been admittedly proper prior to that day. We set out the assignment here in its entirety.

AGREEMENT

This agreement is made and entered into this day of June 20, 1984 by and between ESPE GmbH, a limited corporation of West Germany, having a place of business at D-8031 Seefeld/Oberbay, West Germany (hereinafter "ESPE") and Premier Dental Products Company, a corporation organized and existing under the laws of the State

of Pennsylvania, having a post office address at 1710 Romano Drive, Norristown, Pennsylvania 19404 (hereinafter "Premier").

WHEREAS, ESPE is the owner of the entire right, title and interest in and to the trademark "IMPREGUM" and United States Trademark Registration No. 843,294, issuued January 30, 1968;

WHEREAS, Premier has been the sole distributor in the United States for products made by ESPE and sold under the trademark "IMPREGUM"; and

WHEREAS, Premier wishes to obtain title to the registration for "IMPREGUM", including the right to file suit for infringement thereof, and ESPE is willing to assign said registration to Premier for that limited purpose.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the parties, and for the mutual covenants and promises hereinafter set forth,

IT IS MUTUALLY AGREED AS FOLLOWS:

1. Subject to the terms and conditions of this agreement, ESPE hereby agrees to assign to Premier all right, title and interest in and to the trademark "IMPREGUM" and the registration therefor (hereinafter the "Trademark"), together with the goodwill of the business connected with the use of and symbolized by said Trademark, as well as the right to sue for infringement of the Trademark or injury to said goodwill, including past infringement.

2. Subject to the faithful performance of the terms of this agreement, Premier grants back to ESPE the sole and exclusive right to manufacture products to be sold under the Trademark "IMPREGUM" for sale in the United States.

3. Premier and ESPE recognize that it is necessary to maintain the quality of the goods sold under the Trademark and ESPE shall maintain the same quality of the goods it has maintained heretofore.

4. The purpose of this Agreement is to permit Premier to act against infringers and unauthorized importers of IMPREGUM trademarked products into the United States and prior to commencing any action, it shall notify ESPE so that the parties may consult with respect to the action. The bringing of suit shall be in the name of Premier and ESPE shall not be a party to the action unless a court of competent jurisdiction orders it to be joined.

5. Premier shall take no action with respect to the Trademark and/or said registration which shall in any way dilute or damage the goodwill associated therewith.

6. The parties have agreed that the assignment of the Trademark from ESPE to Premier shall be in the form attached hereto as Exhibit A. Premier further agrees and warrants that it shall not assign the Trademark or the title vested in it to any other party, unless it shall have received written authority from ESPE permitting it to do so. In the event that ESPE desires to have the Trademark as well as the goodwill and all rights and title to the registration reassigned to it, shall give Premier thirty (30) days notice and Premier shall execute a reassignment to ESPE in the form set out herein as Exhibit B. If Premier refuses to

reassign the Trademark and said registration as required hereunder, ESPE may proceed in any court of competent jurisdiction to require the reassignment and Premier hereby consents to an order of said court compelling it to resassign the Trademark and said registration. Premier agrees that it shall be liable to ESPE for all attorneys fees and other costs which ESPE may occur in obtaining the reassignment if a court action is brought.

7. Premier Dental Products Company hereby agrees that it shall not reassign, or take any action with respect to the trademark "IMPREGUM" and said registration unless it shall have given to registrant ninety (90) days written notice of the action that it intends to take. In the event that Premier elects to reassign to registrant the trademark "IMPREGUM" and said registration together with the goodwill associated therewith, it shall not be necessary to give registrant the required ninety (90) days notice set forth above.

8. This agreement shall be governed, interpreted, construed and enforced in accordance with the laws of the State of New York. Premier agrees that it may be sued under this agreement by ESPE in the United States District Court for the Southern District of New York, it will not contest the venue of the action and it hereby submits itself to the jurisdiction of that court.

ESPE Gmbh

Dated: 6/20/84 By Harold Opotow, Vice-President

ATTEST:

PREMIER DENTAL PRODUCTS COMPANY

Dated: 6/19/84 By

ATTEST:

Thus, ESPE attempted to create a right to stop Darby from importing genuine Impregum where none had existed, by "assigning" the United States trademark to Premier without actually transferring control of the trademark or the product to which it was affixed.* (37a).

Although the assignment purported to transfer the goodwill associated with the Impregum mark in the United States, the evidence showed, and the District Court found as a fact, that dentists do not associate Impregum with Premier. (34a). The Impregum trademark on the packaging tells dentists that, "Premier now distributes 'ESPE IMPREGUM.'" (34a).

Because of the nature of Impregum, Premier is not required to perform functions that might create a separate, factually independent goodwill connecting the trademark with Premier in the minds of dentists who use the product. (29a-30a). Impregum is unlike complicated and expensive camera equipment which might require United States distributors to provide instruction, maintenance and repair services or an inventory of related parts and accessories in order to maintain the prestige of the trademark.** (Cf.

* Not only did ESPE maintain control of the quality of the product and the use of the trademark, but also the design of the packages and tubes remained in ESPE's control. After the "assignment" ESPE redesigned the tubes to make the ESPE logo more prominent and place it over the trademark to emphasize that the product is "ESPE Impregum". Premier's name appears less prominently as the distributor of ESPE Impregum. (4a, 33a).

** The product is extremely easy for a dentist to use. From two tubes of material he simply squeezes lines onto a mixing pad, one a polyether material and the other a catalyst. The lines of material are mixed together and placed in a dental impression tray which is put in the patient's mouth. Hardening can be speeded up or slowed down by adjusting the proportions of the mixture. Dentists do not need or receive assistance from Premier and as a result do not associate Impregum with any company other than the manufacturer. (29a-30a).

Osawa & Co. v. *B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984)).

When Darby continued to import Impregum despite notice of the sham assignment, Premier sued to enjoin such importation under the Lanham Act, 15 U.S.C. 1114, 1124 and 1125, and the Tariff Act, 19 U.S.C. 1526, and moved for a preliminary injunction.* (4a). The district court granted the prelmiinary injunction, giving full force and effect to the "assignment" by holding that Premier was the *owner* of the United States trademark (despite the nature of the assignment agreement and a factual finding that dentists do not identify Impregum with Premier), and was therefore entitled to assert Section 526 of the Tariff Act against Darby. (37a, 39a).

The court of Appeals for the Third Circuit affirmed the district court's conclusion that Premier owns the United States trademark while acknowledging that:

a) a party cannot "own" a trademark without possessing the goodwill inherent therein, (7a) and

b) goodwill includes public confidence in the quality of the goods as well as name recognition, (6a at n. 3), and

c) Premier has no control over or function regarding Impregum's quality (12a-13a) and dentists do not recognize Impregum from Premier. (34a).

One issue, in addition to ownership, was decided by the Court of Appeals that requires review. The court held that

* Jurisdiction was premised on 28 U.S.C. 1338(a).

Premier would suffer "irreparable harm"* solely by virtue of Darby's sale of Impregum purchased in Europe, despite the fact that the products sold by Darby and Premier are identical. The district court had stated that, "goodwill and reputation are not harmed by [Darby's] sale of identical products". (34a). The district court's view was consistent with the Second Circuit's decision in *Bell & Howell: Mamiya Co.* v. *Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), where a preliminary injunction had been vacated in similar circumstances on the ground that the parallel imports were genuine and could not cause consumer confusion as to source. 719 F.2d at 46. The Third Circuit below disagreed expressly with *Bell & Howell* and the district court, and ruled that Premier would suffer irreparable harm by virtue of Darby's sale of identical Impregum purchased in Europe. 794 F.2d at 859. (19a-20a).

Conflicting answers to the questions of trademark ownership and irreparable harm from parallel imports have been given in recent decisions of several Circuit Courts of Appeal. For the reasons stated below, this Court should review those decisions and resolve the controversies which leave business, industry and the Customs Service in a quandry over the state of the law.

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* Irreparable harm is a requirement for the issuance of an injunction. (18a).

Reasons for Granting Certiorari

POINT I

a. **In this case the Third Circuit has permitted the respondent, a trademark assignee from a foreign assignor, to invoke Section 526 of the Tariff Act to prohibit petitioners' importation of products bearing the trademark "Impregum" although the respondent has no bona fide, beneficial ownership interest in the trademark.**

b. **The decision of the Third Circuit in this case, and District of Columbia Circuit in the *COPIAT* case, are in conflict with the decisions of the Federal Circuit in the *Vivitar* case and the Second Circuit in the *Olympus* case on the same matter, to wit: the Third Circuit and the District of Columbia Circuit have ruled that the trademark ownership requirement of Section 526 of the Tariff Act, U.S.C. 1526, is satisfied by evidence of a written assignment from a foreign assignor regardless of the relationship of the assignor to the assignee or the lack of bona fide, beneficial ownership in the assignee; while the Federal Circuit and the Second Circuit have ruled that an assignee of the Trademark must show that it is the bona fide, beneficial owner of the trademark and is not affiliated with or controlled by the foreign assignor.**

c. **The question of whether a trademark assignee must show a bona fide, beneficial ownership interest in a trademark, and independence from the trademark assignor, in order to satisfy the trademark ownership requirement of Section 526 of the Tariff Act, is an important question of federal law which has not been, but should be, settled by this Court.**

At issue in this case is the power of a foreign manufacturer to charge Americans more than others for its goods

by requiring all such goods to be imported by a designated distributor. The vehicle chosen for preventing others from buying the goods at lower market prices abroad and importing the goods into the United States in competition with the designated distributor is Section 526 of the Tariff Act (19 U.S.C. 1526). The statute proscribes the importation of foreign manufactured merchandise that "bears a trademark owned by a citizen of the United States".

The key word in the statute is "owned".* Senate debate prior to enactment highlighted the importance of ownership in the statute (62 Cong. Rec. 11,605) (1922) (59a-61a) and the section was amended in conference to add the ownership requirement. (H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922)). (63a).

The statute was enacted to protect Americans who had purchased United States trademarks from foreign manufacturers and then faced competition from foreign goods bearing the same trademark placed on the goods by the foreign manufacturer who had sold his United States trademark

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* The concept of ownership can be elusive in the trademark context. As Justice Pitney stated for this court nearly 68 years ago in *United Drug Co.* v. *Rectanus Co.* 248 U.S. 90, 97 39 S.Ct. 48, 50, 63 L.Ed. 141, 145 (1918):

> There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed. The law of trade-marks is but a part of the broader law of unfair competition; the right to a partcular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business.

This doctrine has been codified in the Lanham Trademark Act (15 U.S.C. 1060) which states that a trademark cannot be transferred without the goodwill which the trademark symbolizes. See also *Greenlon, Inc. of Cincinnati* v. *Greenlawn Inc.*, 542 F. Supp. 890, 893 (S.D. Ohio 1982).

rights. The legislation was in direct response to the *Katzel* case (*A. Bourjois & Co. v. Katzel*, 275 Fed. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689, 43 S. Ct. 244, 67 L. Ed. 464 (1923)) where an American purchaser of the Java trademark for face powder was confronted with such unfair competition.

It is impossible to read the short Senate debate on the statute (see 46a-62a) without concluding that Section 526 was enacted to protect American companies that purchased and owned trademarks such as Bayer aspirin (Sen. McCumber, 72 Cong. Rec. 11,603, 54a), Hunyadi Janos water (Sen. Sutherland, 72 Cong Rec. 11,603, 51a) or Java face powder (*Katzel*) and were threatened with competition from foreign goods bearing those very trademarks. (50a). Section 526 protects United States trademark *owners* who have a valid, bona fide, beneficial, economic, proprietary interest in the United States trademark.

Differences over the role of the Customs Service when enforcing Section 526 have resulted in conflicting opinions in three Courts of Appeal related to the question of bona fide trademark ownership. These cases have interpreted the statute in the context of challenges to the validity of Customs regulations, 19 C.F.R. 133.21 (c)(1)-(3) (43a-44a), which permit entry of foreign goods bearing a United States trademark if the United States trademark owner and the foreign manufacturer are the same or affiliated companies. In these three cases United States trademark claimants challenged the right of the Customs Service to exempt any foreign goods bearing a United States trademark from seizure at the border. *Olympus Corporation* v. *United States*, 792 F.2d 315 (2d Cir. 1986), *aff'g* 627 F.Supp. 911

(E.D.N.Y. 1985) ("Olympus"); *Vivitar Corporation* v. *United States*, 761 F.2d 1552 (Fed.Cir. 1985), *cert. den.*, 474 U.S.——, 106 S. Ct. 791, 88 L.Ed. 769 (1986) *aff'g* 593 F. Supp. 420 (Ct. Int'l. Trade 1984), ("Vivtar"); *Coalition to Preserve the Integrity of American Trademarks* v. *United States*, 790 F.2d 903 (D.C. Cir. 1986) *rev'g* 598 F. Supp. 844 (D.D.C. 1984) ("COPIAT"). The conflicting decisions of these three Circuit Courts reflect a fundamental disagreement concerning the meaning of Section 526, and leave the Customs Service in a quandary as to its legal duty.

In *COPIAT*, the D. C. Circuit read the statute in its most literal sense barring entry of *any* foreign goods bearing a United States trademark. It found nothing in the legislative history or the administrative interpretation of the statute to allow any exceptions to the section's broad exclusionary language. Customs regulations that created exceptions were found to be in conflict with the statute, and invalid. 790 F.2d at 917.

In *Vivitar* the Federal Circuit upheld the Customs regulations as a reasonable exercise of administrative discretion in initiating enforcement of the statute. 761 F.2d at 1571. The Court declined to base its decision on congressional intent (761 F.2d at 1561-1565), administrative interpretation (761 F.2d at 1565-1568) or implied congressional ratification (761 F.2d at 1568). The Federal Circuit based its finding that the Customs regulations were valid on the "Interrelationship of Statute and Regulations" (761 F.2d at 1568-1570). The court stated:

> Where protection under the statute is unclear or depends upon resolution of complex factual situations,

> Customs may decline to impose *sua sponte* the extreme sanction of exclusion and leave such cases for initial determination by the district courts under the private remedies provided to the trademark owner in Section 1526(c). 761 F.2d at 1570.

In *COPIAT*, the D.C. Circuit found the statute so clear as to invalidate Customs regulations that limited Customs' duty to exclude all foreign goods bearing a trademark owned and registered by a United States citizen or company. In *Vivitar* the Federal Circuit upheld the Customs regulations because, "protection under the statute is unclear or depends upon resolution of complex factual situations . . .", 761 F.2d at 1570. The dispute over whether the statute is simple or complex, clear or unclear, is highlighted by the opinions of the Second Circuit majority and dissent in *Olympus*. The majority upheld the Customs regulations as a valid exercise of administrative enforcement discretion because the numerous variations in gray market situations would involve Customs in determining complex issues such as "isolable good will", "price discrimination" and "antitrust law". 792 F.2d at 320. The dissent described this as a "bootstrap argument", noting that "Enforcement of Section 526 as written is simplicity itself." 792 F.2d at 322. The dissent argued that the statute requires *all* gray market goods to be excluded, and Customs need not involve itself in the relationships of the foreign manufacturer and the United States trademark owner, or questions of domestic goodwill. Only by deciding in advance that Section 526 does *not* exclude all gray market goods, notes the dissent, does the statute become complex; so the complexity cannot logically be the rationale for deciding that Section 526 does not exclude all gray market goods.

This simply worded statute is the subject of varying interpretations because a formal literal interpretation (such as that adopted in *COPIAT*) without an analysis of the statute's purpose* to protect bona fide American owners of United States trademarks yields a result that is in direct conflict with the purpose of the legislation. The Federal Circuit in *Vivitar* was dealing with this central concern (although not expressly identifying it as a question of "ownership") when it noted:

> While we have rejected the government's argument that the statute must be interpreted as limited by the regulations, we must also reject the view that the statute may not have *any* implied limitations or that general principles such as "agency," "piercing the corporate veil," "sham" transactions, "estoppel," "fraud" or other defenses could not defeat an apparent right to invoke the statute.

761 F.2d at 1570. (emphasis supplied by the court).

All of these factors refer to the issue of bona fide, beneficial *ownership* of the United States trademark by the claimant or plaintiff.

Viewed in this light, the Customs regulations are consistent with Section 526 and with Congress's desire to pro-

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* As Learned Hand has said:

> [I]t is true that the words used, even in their literal sense, are the primary, and ordinarily the most reliable, source of interpreting the meaning of any writing: be it a statute, a contract, or anything else. But it is one of the surest indexes of a mature and developed jurisprudence not to make a fortress out of the dictionary; but to remember that statutes always have some purpose or object to accomplish, whose sympathetic and imaginative discovery is the surest guide to their meaning.
>
> *Cabell* v. *Markham*, 148 F.2d 737, 739 (2d Cir. 1945) *aff'd*, 326 U.S. 404, 66 S. Ct. 193, 90 L. Ed. 165.

tect beneficial owners of United States trademarks from unfair competition. The Customs regulations do not limit the breadth of the statute, but rather they specify the type of ownership required in order to invoke the drastic remedy of seizure under the statute. Section 526 requires that the trademark be beneficially "owned" by a United States citizen or company. The Customs regulations state that where the United States trademark owner is a company related to, affiliated with or controlled by the foreign manufacturer which placed the trademark on the goods, it is probable that the United States company does not possess the requisite bona fide, economic *ownership* interest to invoke the statute. Customs is stating in the regulations that the ownership of the trademark in such situations is questionable—the real economic benefit of ownership may be in the foreign parent or subsidiary—and therefore Customs will not enforce the statute for the benefit of an unintended foreign beneficiary.

This analysis resolves the *apparent* conflict between the statute and the regulations, and it explains fifty years of Congressional acquiescence in the regulations despite periodic review of the statute. (The first limitation on the scope of Customs enforcement of Section 526 is found in the 1936 Customs regulations. *See Vivitar,* 761 F.2d at 1566.)

It also explains disparate district court gray goods decisions such as *Parfums Stern Inc.* v. *U.S. Customs Service,* 575 F. Supp. 416 (S.D. Fla. 1983), *Osawa & Co.* v. *B & H Photo,* 589 F. Supp. 1163 (S.D.N.Y. 1984), *Weil Ceramics & Glass, Inc.* v. *Dash,* 618 F. Supp. 700 (D.N.J. 1985) and *Model Rectifier Corp.* v. *Takachiho International, Inc.,* 221

U.S.P.Q. 502 (9th Cir. 1983) where the courts struggled to determine whether the plaintiffs had a real economic interest in a United States trademark before granting relief. In *Weil* and *Osawa* the district judges engaged in exhaustive analysis of the plaintiffs' activities in order to determine whether the registrants were independent owners of the trademarks and the goodwill appurtenant to them. The *Weil* court emphasized the quality control function exercised by Weil, the United States distributor to whom the trademark had been assigned (618 F. Supp. at 711-12). Significantly, Weil used the trademark on products that came from manufacturers other than the trademark assignor (618 F. Supp. at 712), a clear indication that Weil independently owned the trademark in the United States.

In *Osawa* the District Court described in painstaking detail the activities engaged in by the United States trademark assignee to establish "independent goodwill", without which the United States mark would represent, "nothing more than a foreign outpost of the goodwill associated with the original mark. . ." 589 F. Supp. 1174. The opinion emphasized that the plaintiff offered extensive services to consumers, which services were important because of the complex nature and expense of the camera equipment at issue, including quality control inspection on arrival in the United States as well as warranty, maintenance and repair services, and stocking a complete inventory of accessories. 589 F. Supp. 1165-68. If the trademark in the United States represented nothing more to consumers than a link to the manufacturer, justifying consumer reliance based solely on the quality placed in the goods by the manufacturer, the trademark would be in reality owned by the manufacturer

despite assignment to and registration by the United States plaintiff. Under such circumstances, "it might well be argued that exhaustion has taken place with the release into commerce [by the manufacturer] and that no infringement occurs on unauthorized importation (citation omitted)". 589 F. Supp. 1174. The finding in *Osawa* that the United States assignee was the legitimate "owner" of the United States trademark was further supported by the terms of the assignment agreement itself (quoted in part at 589 F. Supp. 1178, fn. 12). Unlike the assignment to Premier in the case at bar, the assignment in *Osawa* was not terminable at will by the foreign assignor. The assignment emphasized the duties of the assignee which had to be performed to assure that the mark continue to identify the "goods as emanating from the assignee . . . . " Clearly this was no sham assignment entered into solely to permit Osawa to prevent competition from gray market merchandise.

A contrary result was reached in *Parfums Stern*, where the United States plaintiff was part of, "a single international enterprise operating through an amoeba like structure," (575 F. Supp. at 418) and therefore could not invoke Section 526 despite the fact that the United States plaintiff "owned" the United States trademark in a dry, literal sense. The true economic interest in the trademark was "owned" by the international enterprise and the Court refused to invoke Section 526 despite nominal ownership by a United States plaintiff.

In *Model Rectifier Corp.* v. *Takachiho Intrnational, Inc.*, 221 U.S.P.Q. 502 (9th Cir. 1983), an exclusive distributor of a foreign manufacturer of model car kits also obtained

its rights in the trademark by assignment from the foreign manufacturer. The defendants were preliminarly enjoined from importing models manufactured by the same foreign company. The assignee performed functions indicating its true beneficial interest in the mark, such as opening and inspecting each kit, replacing broken or missing parts and dealing with purchasers who had problems with broken or missing parts in kits sold by defendants. 221 U.S.P.Q. at 503. Moreover, the District Court had noted that the trademark assignor did *not* have the right to require a reassignment of the trademark at will. 220 U.S.P.Q. at 511, para. 8. Thus the assignee had substantive trademark rights by virtue of the assignment which Premier did not receive in the case at bar.

What is now required of the Supreme Court is a resolution of the dispute between Court of Appeals decisions in *COPIAT* which requires no proof of true, beneficial ownership of a trademark, and in *Vivitar* and *Olympus*, which require the plaintiff to have a real, beneficial interest in the United States trademark before seizure or exclusion can be granted.

Unfortunately, to date, the focus of the gray goods cases has either been on the issue of whether the United States distributor has developed what the courts have styled "isolable" or "independent" goodwill in the trademark, or on the history of the Customs regulations. Not one case has focused on the inter-relationship between the wording of Section 526 and the intent of Congress. Predictably, the result has been confusion. Clearly, the issue is not independent goodwill, because Congress did not intend for example, that the American purchaser of the Bayer mark

would have to show that it had itself established "independent" goodwill in the United States with respect to the Bayer mark before it could invoke Section 526; it being sufficient that it had purchased the Bayer mark with the goodwill theretofore developed by the German owner of the mark and that it was the *independent American owner* of the mark after the purchase. Similarly, the history of the Customs regulations are irrelevant if in fact there exists no support for them in the statute itself. The *Premier* case is unique in that it brings into sharp focus the true issue, i.e., whether the word "owned" was used by Congress in the sense of mere, bare legal title or whether the word "owned" was used in the sense of true beneficial economic ownership. Once the question is properly stated, the answer follows, it is submitted, as a matter of course.

The *Premier* case faces this conflict in a particularly direct way. In this case real businesses (not trade associations or government agencies) are locked in a dispute over whether the United States assignee is the true beneficial owner of the Impregum trademark, or whether the beneficial owner of the mark is the foreign manufacturer, ESPE. If a company such as Premier, which has no control over the use of the United States trademark or the quality of the product, can be used by a foreign manufacturer as a nominal "assignee" of the United States trademark for the sole purpose of excluding genuine goods sold less expensively in other parts of the world, Section 526 will be turned on its head. The statute intended to protect American trademark owners from the fraud and unfair competition of foreign manufacturrs will be used in this case by a foreign manufacturer against American firms such as Darby which buy genuine trademarked goods abroad and sell them here in competition with other goods made by the same foreign

manufacturer. If ESPE, a foreign manufacturer, can use Section 526 to restrain such competition by assigning legal title of the Impregum mark to Premier while maintaining complete control of the mark and the product on which it is placed, then a scheme to misuse Section 526 will be sanctioned and will be used again by other foreign manufacturers who want to sell their goods at one price to the rest of the world and at an inflated price to Americans.

POINT II

a. In this case the Third Circuit has ruled that the respondent will suffer irreparable harm and is therefore entitled to a preliminary injunction due to petitioners' importation of products bearing a trademark owned by the respondent in the United States, although the products imported and sold by petitioners and respondent are identical and are made by the same foreign manufacturer who owns the trademark in the country of manufacture where it affixes the trademark to the goods imported by both petitioners and the respondent.

b. The decision of the Third Circuit in this case is in conflict with the decision of the Second Circuit in the *Masel* case and presents an important question of federal law which has not been, but should be, settled by this Court.

c. The Third Circuit should have remanded the case to the District Court for reconsideration of the issue of irreparable harm, rather than making factual findings in conflict with those of the District Court and affirming the decision below on a ground not raised or relied on by the District Court.

A showing of immediate irreparable harm or a presently existing actual threat of harm, is required for a preliminary

injunction to issue. *Premier*, 794 F.2d at 858 (18a), *Bell & Howell: Mamiya Co.* v. *Masel Supply Co.*, 794 F.2d 42, 45 (2d Cir. 1983) ("*Masel*").

In both the *Premier* case in the Third Circuit and the *Masel* case in the Second Circuit, United States trademark owners sought preliminary injunctions to halt the parallel importation of gray goods, In *Masel* the Second Circuit reversed the district court, dissolving a preliminary injunction stating:

> On the basis of the present record, irreparable injury may well not be present herein since there would appear to be little confusion, if any, as to the origin of the goods and no significant likelihood of damage to BHMC's reputation since thus far it has not been shown that Masel's goods, which have a common origin of manufacture with BHMC's goods, are inferior to those sold by BHMC and are injuring BHMC's reputation. 719 F.2d at 46.

In *Premier* the Third Circuit upheld the district court's issuance of a preliminary injunction, referring to *Masel* as follows:

> In *Bell & Howell: Mamiya Co.* v. *Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), which vacated a district court's preliminary injunction because there had been an insufficient showing of irreparable harm, the Second Circuit appeared to require a showing of confusion as to the *origin* of the gray market goods or of injury to the domestic distributor's reputation caused by *inferior* gray market goods sold under the distributor's trademark. 719 F.2d at 46. We respectfully disagree with this view. As previously indicated, we believe that

> *Bourjois* and Section 526 make it clear that an American distributor's goodwill can be harmed even by the sale of gray market goods that are *identical* to those sold by the distributor. 794 F.2d at 859 (20a-21a) (emphasis supplied by the court).

Obviously, there is a conflict between the law in the Second Circuit and the law in the Third Circuit as to whether the sale of gray goods in and of itself creates irreparable harm required for the issuance of a preliminary injunction.

This is a significant conflict which will result in uncertainty in the business community, and forum shopping by attorneys zealously representing their clients. It is a conflict which has not been, but should be resolved by this Court.

While is is important for the conflict to be resolved regardless of which way this Court decides the question, it is doubly important that the resolution reverse the Third Circuit in *Premier* because that decision was decided without rigorous intellectual analysis and on "facts" made up by the Circuit Court without support in the record.

First, the Third Circuit found that the district court's rationale for finding irreparable harm was unsupported in the record (794 F.2d at 859) (20a). Then the Circuit Court affirmed the issuance of the preliminary injunction on facts not found by the district court to be proven, and unsupported in the record.

For example, the Circuit Court based its finding of irreparable harm on the following statements:

> The goodwill associated with the IMPREGUM mark, which is owned by Premier, exists principally because Premier is known as the exclusive domestic source of IMPREGUM and as the company that stands behind the product. The value of the mark to Premier is largely determined by its connotation of a single source who stands behind the product.
>
> Purchasers of Premier's IMPREGUM are confident they can obtain the same product, service, and financial guaranties that they have gotten before. 794 F.2d at 859. (20a).

The record is devoid of support for these propositions, which the Circuit Court seemed to invent from what it wanted the record to show.* The district Court found that dentists, who are Impregum's only consumers, do not identity Impregum with Premier. (34a). There is nothing that either court could point to in the record which indicates or even implies that Premier is known by dentists as the exclusive domestic source of Impregum, or that the United States distributor rather than the German manufacturer stands behind the product, or dentists derive confidence that they can obtain the same product, service and financial guaranties that they have gotten before by virtue of the United States distributor rather than the foreign manufacturer.**

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* Premier could not have been "known as the exclusive domestic source of IMPREGUM", because Premier did not distribute to dentists (whose knowledge, as the only consumers, is key in a trademark dispute (14a)) and because Darby and others were a substantial, legal, alternative source prior to the trademark "assignment" on June 20, 1984.

** This is not the only instance in the Third Circuit's opinion where it substituted its version of the facts for the district court's. The district court found that dentists do not associate Premier with Impregum (34a), however Premier "is identified in the trade as the

(footnote continued on next page)

The truth is that the goodwill attached to the Impregum name is associated only with the manufacturer, ESPE, and sales by Darby of Impregum made by ESPE cannot injure that goodwill, irreparably or otherwise, because consuming dentists are getting from Darby precisely what they thought they would get when they placed their orders, ESPE Impregum. The Third Circuit's made-up facts cannot change this truth.

A Circuit Court of Appeals should only affirm a judgment below on a ground not raised or relied on by the district court "where the issue is one of law, no factual questions are outstanding that might affect its resolution, and there is no reason to believe that the" Circuit Court would benefit from giving the opportunity to the district court to address the question in the first instance. *Reeder* v. *Kansas City Board of Police Commissioners*, 733 F.2d 543, 548 (8th Cir. 1984). Under the circumstances of this case, where the facts do not support the Circuit Court's conclusion, the matter should have been remanded to the district court for reconsideration. *Pullman-Standard, Inc.*

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source which Impregum is obtained." (36a). Clearly, the district court was saying that consumers do not identify Premier as the source of the product, but wholesalers do. The Third Circuit interpreted the district court's use of the word "trade" to include dentists who understand that Impregum comes from a single source athough they do not know that source by name. (14a). This strained interpretation of the district court's findings is contrary to the clear meaning of the district court's opinion, and contrary to the facts because Premier was not the sole domestic source of Impregum—Darby and others were importing the product parallel to Premier before the "assignment" of the trademark enabled Premier to demand that parallel imports cease.

The Third Circuit called its misinterpretation of the two findings of the district court "reconciling". (14a). Rather than "reconcile" without rational grounds for such interpretation, remand was the proper action, particularly where an interpretation other than that adopted by the Third Circuit was readily apparent.

v. *Swint*, 456 U.S. 273 at 292, 102 S. Ct. 1781 at 1792, 72 L. Ed.2d 66, at 82 (1982), *Seattle Box Co.* v. *Industrial Crating & Packing, Inc.*, 756 F.2d 1574, 1578 (Fed Cir. 1985).

This Court should review the Third Circuit's holding that Premier has shown that it will suffer irreparable harm from Darby's sale of genuine ESPE Impregum because that holding is in direct conflict with the Second Circuit's opinion in *Masel*, and because the Third Circuit acted improperly in not remanding the case to the district court for further fact finding.

Conclusion

There is a clear conflict between the Second, Third, Federal and District of Columbia Circuit Courts of Appeal concerning the meaning of Section 526 of the Tariff Act and between the Second and Third Circuits on whether the sale of "gray goods" creates irreparable harm to support a preliminary injunction. These questions are of great significance to importers of all classes of products and to consumers, i.e., the public. Moreover, the dispute over Section 526 of the Tariff Act leaves the Customs Service in a quandary over the validity of its regulations.

These questions have not been, but should be, finally resolved. Moreover, the Third Circuit acted improperly in making factual findings unsupported by the record or the district court's opinion rather than remanding the case to the district court. A Writ of Certiorari should be granted so these questions can be reviewed by this Court.

Respectfully submitted,

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Certificate of Service

The undersigned hereby certifies that on September 22, 1986 Three (3) copies of the Petition for a Writ of Certiorari herein were mailed by first class mail to each of the following attorneys:

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APPENDICES

APPENDIX A

Opinion of the United States Court of Appeals for the Third Circuit, *Premier Dental Supply Company* v. *Darby Dental Supply Company, Inc., et al.*, 794 F.2d 850 (1986).

United States Court of Appeals,

Third Circuit.

No. 85-1468.

PREMIER DENTAL PRODUCTS COMPANY,

v.

DARBY DENTAL SUPPLY COMPANY, INC., Dental Wholesalers, Inc., Spencer Meade Dental, Inc.

Appeal of DARBY DENTAL SUPPLY COMPANY, INC., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc., *Appellants.*

Argued Feb. 12, 1986.

Decided June 24, 1986.

OPINION OF THE COURT

STAPLETON, Circuit Judge:

I

Appellee Premier Dental Products Company ("Premier") is a wholesale distributor of dental products. Premier includes in its inventory a denture impression material produced by a West German manufacturer, ESPE

Fabrik Pharmazeutischer Praparate, GmbH ("ESPE"), and distributed in this country under the registered trademark "IMPREGUM." Premier and ESPE are independent firms. IMPREGUM is a patented material used to make impressions for dentures, removable protheses and full crowns.

In 1974, ESPE granted Premier the exclusive right to market and distribute IMPREGUM in the United States. ESPE reserved the right to cancel this distributorship should Premier's sales volume of IMPREGUM for any two-year period fall below the maximum sales volume achieved by Premier in any single year.

Appellants Darby Dental Supply Company, Inc., Dental Wholesalers, Inc., and Spencer Meade Dental, Inc. ("Darby") are mail-order purveyors of dental products. Darby sells dental impression materials, including IMPREGUM, to both dentists and dental supply companies. Until 1982, Darby purchased its stock of IMPREGUM from Premier. Thereafter, Darby obtained access to the European-marketed version of IMPREGUM and began to sell it in the United States at a lower price than offered by Premier.[1]

On June 20, 1984, ESPE assigned to Premier all its "right, title and interest" in the United States trademark "IMPREGUM." This assignment was recorded in the Patent and Trademark Office and with the Customs Service. The principal provisions of the assignment are as follows:

> WHEREAS, Premier wishes to obtain title to the registration for "IMPREGUM", including the right to file

1. In 1982, Darby's purchases of IMPREGUM constituted 15% of Premier's total IMPREGUM sales. In the first eleven months of 1984, Darby's purchases represented only 0.26% of the total. Premier's overall sales of IMPREGUM to all customers declined by approximately 20.3% between 1982 and 1984.

suit for infringement thereof, and ESPE is willing to assign said registration to Premier for that limited purpose, . . .

It Is Mutually Agreed As Follows:

1. Subject to the terms and conditions of this agreement, ESPE hereby agrees to assign to Premier all right, title and interest in and to the trademark "IMPREGUM" and the registration therefor (hereinafter the "Trademark"), together with the goodwill of the business connected with the use of and symbolized by said Trademark, as well as the right to sue for infringement of the Trademark or injury to said goodwill. . . .

2. Subject to the faithful performance of the terms of this agreement, Premier grants back to ESPE the sole and exclusive right to manufacture products to be sold under the Trademark "IMPREGUM" for sale in the United States.

3. Premier and ESPE recognize that it is necessary to maintain the quality of the goods sold under the Trademark and ESPE shall maintain the same quality of goods it has manufactured heretofore.

4. The purpose of this Agreement is to permit premier to act against infringers and unauthorized importers of IMPREGUM trademarked products into the United States . . .

5. Premier shall take no action with respect to the Trademark and/or said registration which shall in any way dilute or damage the goodwill associated therewith.

6. . . . Premier further agrees and warrants that it shall not assign the Trademark or the title vested in it to any other party . . . In the event that ESPE

> desires to have the trademark as well as the goodwill and all rights and title to the registration reassigned to it, it shall give Premier thirty (30) days notice and Premier shall execute a reassignment to ESPE . . .
>
> 7. Premier . . . agrees that it shall not reassign, or take any action with respect to the Trademark "IMPREGUM" and said registration unless it shall have given to registrant [ESPE] ninety (90) days written notice of the action it intends to take. . . .

The European-marketed IMPREGUM is identical in substance to Premier's version. However, there are differences in the products' packaging. The American packaging is written only in English while the European version is written in English and German. ESPE's name appears alone on the European version of IMPREGUM. The American version, which until the 1984 assignment referred to Premier only on the cartons containing IMPREGUM, now displays the Premier trade name on most of the IMPREGUM tubes and bottles. Also, after the assignment, the American packaging was changed to make the ESPE name more prominent and to indicate that Premier is the distributor. Premier composed the instructions for the American version, which are in English. The instructions for the European version were not written by Premier and are printed in German, French, Italian, and Spanish as well as in English. However, both sets of instructions are substantially the same.

After Darby failed to accede to Premier's requests that it desist from importing and selling the European-marketed IMPREGUM, Premier brought this suit in district court and moved for a preliminary injunction. Premier alleged that Darby's importation of IMPREGUM violates

Section 526 of the Tariff Act of 1930, 19 USC. § 1526, and Sections 32, 42 and 43 of the Lanham Act, 15 U.S.C. §§ 1114, 1124, and 1125. The district court granted Premier's request for a preliminary injunction on the grounds that Premier, as the owner of the American trademark "IMPREGUM," was entitled to assert Section 526 of the Tariff Act of 1930 against Darby. Darby appealed to this court.

II

THE STANDARD OF REVIEW

Before a district court may issue a preliminary injunction it must consider whether the movant has shown that it is likely to prevail on the merits, whether the movant has shown irreparable harm in the absence of such relief, whether such relief will substantially harm other parties, and where the public interest lies. *See Commonwealth of Pennsylvania v. United States*, 469 F.2d 1387 (3d Cir. 1972).

On appeal, the standard of review of a preliminary injunction issued by a district court is narrow. Unless an abuse of discretion is "clearly established, or an obvious error has occurred in the application of the law, or a serious and important mistake has been made in the consideration of the proof, the judgment of the trial court must be taken as presumptively correct." *Stokes v. Williams*, 226 F. 148, 156 (3d Cir.1915); *see S.I. Handling Systems v. Heisley*, 753 F.2d 1244, 1248 (3d 1985); *Tustin v. Heckler*, 749 F.2d 1055, 1060 (3d Cir.1984); *A.O. Smith v. FTC*, 530 F.2d 515, 525 (3d Cir.1976).

III

A. *THE ASSIGNMENT TO PREMIER*

Section 526(a) of the Tariff Act of 1930, with limited exceptions not applicable here, proscribes the importation of any foreign-manufactured merchandise that "bears a trademark owned by a citizen of the United States." This section must, therefore, be read in conjunction with the trademark law doctrines that determine trademark ownership.[2] *See Vivitar Corp. v. United States,* 761 F.2d 1552 (Fed.Cir.1985), *cert. denied* —— U.S.——, 106 S.Ct. 791, 88 L.Ed.2d 769 (1986); *Model Rectifier Corp.* v. *Takachiho International, Inc.,* 709 F.2d 1517, 221 U.S.P.Q. 502 (9th Cir.1983); *Bell & Howell; Mamiya Co.* v. *Masel Supply Co.,* 548 F.Supp. 1063 (E.D.N.Y.1982), *vacated on other grounds,* 719 F.2d 42 (2d Cir.1983).

A trademark symbolizes the public's confidence or "goodwill"[3] in a particular product. However, it is no

2. Section 526(a) bars imports only if the trademark is recorded with the Customs Service pursuant to 15 U.S.C. § 1124, which permits only the owner of a trademark to register the trademark. *See* 19 C.F.R. § 133.3(a)(1) (1985).

3. "Goodwill" is the advantage obtained from use of a trademark. This includes public confidence in the quality of the product and in the warranties made on behalf of the product, and the "name recognition" of the product by the public that differentiates that product from others. As Professor McCarthy explains:

> "Good will is not a tangible, physical object that can be seen, felt and tasted. Its real existence is in the minds of the buying public. . . . [It] is a business value which reflects the basic human propensity to continue doing business with a seller who has offered goods and services which the customer likes and has found adequate to fulfill his needs. . . . [It] is that which makes tomorrow's business more than an accident,' . . . 'all that good disposition which customers entertain towards the house of business identified by the particular name or firm and which may induce them to continue giving their custom to it.' "

1 J. McCarthy, *Trademarks and Unfair Competition* § 2.8 at 72-73 (2d ed. 1984) (footnotes omitted).

more than that, and is insignificant if separated from that confidence. Therefore, a trademark "is not the subject of property except in connection with an existing business." *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97, 39 S.Ct. 48, 50, 63 L.Ed.2d 141 (1918); *Family Circle v. Family Circle Assoc.*, 332 F.2d 534 (3d Cir.1964).

A trademark serves several purposes. It allows buyers to identify the goods to which it is affixed as from a particular source and distinguishes those goods from similar merchandise of others. Also, the mark often signifies that all goods bearing that mark are of like quality. Finally, the mark is valuable in the advertising and sale of the trademarked goods. *See generally*, 1 J. McCarthy, *Trademarks and Unfair Competition* § 3.1. (2d ed. 1984).

Because a trademark is symbolic, it may be transferred or assigned only to represent the transfer of goodwill connected with a particular business, *Dresser Industries v. Heraeus Engelhard Vacuum, Inc.*, 395 F.2d 457, 464 (3d Cir.) *cert. denied* 393 U.S. 934, 89 S.Ct. 293, 21 L.Ed.2d 270 (1968), and cannot be transferred separately from the goodwill of the business. *United Drug*, 248 U.S. at 97, 39 S.Ct. at 50; *Dresser Industries*, 395 F.2d at 464; *Family Circle*, 332 F.2d 534; 15 U.S.C. § 1060;[4] *see Marshak* v. *Green*, 746 F.2d 927 (2d Cir.1984); *Haymaker Sports, Inc. v. Turian*, 581 F.2d 257, 260-61 (C.C.P.A.1978); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 287 (8th Cir.1969); 1 McCarthy, *supra*, at § 18.1. However, following a proper assignment, the assignee steps into the shoes of the assignor.

It is well established that a distributor may own the trademark in goods it does not manufacture. *See, e.g.*,

4. 15 U.S.C. § 1060 states that "A registered mark . . . shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark. . . ."

Menedez v. Holt, 128 U.S. 514, 520, 9 S.Ct. 143, 144, 32 L.Ed. 526 (1888); *Energy Jet, Inc. v. Forex Corp.,* 589 F.Supp. 1110 (E.D.Mich.1984); *Wrist-Rocket Manufacturing Co. v. Saunders,* 379 F.Supp. 902 (D.Neb.1974), *rev'd in part* 516 F.2d 846 (8th Cir.), *cert. denied* 423 U.S. 870, 96 S.Ct. 134, 46 L.Ed.2d 100 (1975); 15 U.S.C. § 1127[5] As Professor Callmann has written,

> The use of a trademark does not necessarily and as a matter of law import that the articles upon which it is used are manufactured by its user. It may be enough that they are manufactured for him, that he controls their production, or even that they pass through his hands in the course of trade, and that he gives to them the benefit of his reputation, or of his name and business style. The decisive question is not who manufactured the article sold under a given trademark, but which business or article is symbolized by it.

Callmann, *Unfair Competition, Trademarks and Monopolies* § 17.16 (4th ed., 1981); *See Wrist-Rocket Manufacturing Co.,* 516 F.2d at 851; *Cola-Cola Bottling Co. v. The Coca-Cola Co.,* 269 F. 796, 806 (D.Del.1920); *Victor Tool & Machine Corp. v. Sun Control Awnings, Inc.,* 299 F.Supp. 868, 874 (E.D.Mich.1968), *aff'd* 411 F.2d 792 (6th Cir. 1969).

The ownership of a trademark as between a manufacturer and an exclusive distributor is largely determined by the parties' agreement. *Model Rectified Corp., v. Takachiho International, Inc.,* 220 U.S. P.Q. 508, 510 (C.D. Calif.1982), *aff'd* 709 F.2d 1517, 221 U.S.P.Q. 502 (9th Cir. 1983); *Mort Wolson Assoc. v. Blaine/Worthington Enterprises,* 211 U.S.P.Q. 146 (S.D.N.Y.1980); *In re George Ball,*

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5. 15 U.S.C. § 1127 defines a trademark as "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer *or merchant* to identify his goods and distinguish them from those sold by others" (emphasis added).

153 U.S.P.Q. 426, 427 (T.T.A.B.1967); 1 McCarthy, *supra*, at § 16:16. In the case at bar, it is not disputed that Premier and ESPE have agreed that Premier should own the United States trademark in IMPREGUM.

While the parties' agreement is important in settling the question of ownership, it is not dispositive. The ownership of the product's goodwill must also be determined. "The intent of the parties to create . . . a perception [that a particular firm is the legal entity standing behind the mark] . . . is not conclusive evidence of what the public actually did perceive but is circumstantial proof, absent evidence to the contrary, that what the parties intended to be the public perception was, in fact, their actual perception." Callmann, *supra*, at § 19.17; *see General Business Services, Inc. v. Rouse*, 495 F.Supp. 526, 534 (E.D.Pa.1980); 2 McCarthy, *supra*, at 16:15–16:16.

If the public believes that the exclusive distributor is responsible for the product, so that the trademark has come, "by public understanding, to indicate that the goods bearing the trade-mark come from plaintiff although not made by it." *A. Bourjois & Co. v. Katzel Co.*, 260 U.S. 689, 692, 43 S.Ct. 244, 245, 67 L.Ed. 464 (1923), or if the distributor has obtained "a valuable reputation for himself and his wares by his care in selection of his precautions as to transit and storage, or because his local character is such that the article acquires a value by his testimony to its genuineness," Callmann, *supra*, at 17.16, that is proof that he possesses the goodwill associated with the product. *See E. Leitz, Inc. v. Watson*, 152 *F.Supp.* 631, 635-36 (D.D.C. 1957), *aff'd* 254 F.2d 777 (D.C.Cir.1958); *Weil Ceramics & Glass, Inc. v. Dash*, 618 F.Supp. 700, 711 (D.N.J.1985); *Royal Silver Manufacturing Co. v. National Silver Co.*,

61 F.Supp. 232, 236 (S.D.N.Y.1945); Callmann, § 17.16-17; Derenberg, *Territorial Scope and Situs of Trademarks and Goodwill,* 47 Va.L.Rev. 733, 745-47 (1961); Callmann, *Unfair Competition with Imported Trademarked Goods,* 43 Va.L.Rev. 323, 329-33 (1957).

In applying these principles to the case at bar, we first observe that the goodwill associated with IMPREGUM is that which derives from the reputation of IMPREGUM and differentiates IMPREGUM in the public's mind from other, similar products. Therefore, he who controls the nature and quality of the goods on which the IMPREGUM trademark appears, or whom the public regards as standing behind IMPREGUM, possesses the goodwill in the IMPREGUM trademark.

Premier claims that it, as the exclusive American distributor of IMPREGUM, created the domestic goodwill for IMPREGUM. Premier has been the exclusive United States wholesaler of IMPREGUM since 1974 and has spent a considerable amount of time and money in promoting the product in the United States. It guarantees customer satisfaction with IMPREGUM. Through its long tenure as the exclusive domestic wholesaler of IMPREGUM, Premier has come to be, in the words of the district court, "identified in the trade as the source through which IMPREGUM is obtained." We take this to indicate that, in this country, the IMPREGUM trademark indicates that the goods bearing it come from Premier, although not made by it. *Bourjois,* 260 U.S. at 692, 43 S.Ct. at 245; *see Prestonettes, Inc., v. Coty,* 264 U.S. 359, 368, 44 S.Ct. 350, 351, 68 L.Ed. 731 (1924).

Premier asserts that because it had developed this goodwill, and possessed it at the time of the June, 1984 agree-

ment with ESPE, ESPE could effectively transfer to it legal title to the American trademark IMPREGUM. The district court agreed with Premier and found, for the purposes of the preliminary injunction, that Premier was likely to prevail on the merits on this point. It supported its conclusion by the following findings of fact:

> "Premier has developed a goodwill separate from that of ESPE. Premier has provided seminars and instructions to those wishing to learn about the product. It has provided a toll-free telephone number for the use of those with questions or problems with the product and is identified in the trade as the source through which IMPREGUM is obtained. . . . The exclusive distributorship allowed Premier to use, develop and take advantage of the trademark's goodwill. The assignment did not simply transfer the right to sue, it gave Premier legal title to the goodwill that it has used and the right to protect the exclusive distributorship. Premier has the interest in the goodwill associated with IMPREGUM that is required in a transfer of the trademark."

The district court's findings indicate that Premier has "obtained a valuable reputation for [it]self and [its] wares by [its] care in selection of . . . precautions as to transit and storage, . . . [and that] its local character is such as that the article acquires a value by [its] testimony to its genuineness." Callmann, *Unfair Competition, Trademarks, and Monopolies, supra*, at § 17.17.

The finding that Premier possesses goodwill in IMPREGUM in the United States is not clearly erroneous. On the basis of this finding, we perceive no legal impediment to carrying out the express intent of the parties that title to the United States IMPREGUM trademark be trans-

ferred from ESPE to Premier. Accordingly, we hold that the district court committed no legal error in concluding that Premier owned the United States IMPREGUM trademark following the assignment of June 1984.

Darby resists this conclusion primarily on two grounds. First, it argues that the assignment agreement is a sham. It points out that, after the assignment as well as before, (1) ESPE remained the sole original source of IMPREGUM, (2) ESPE retained a substantial amount of control over the use of the mark and the right to require that it be reassigned, and (3) while ESPE contractually committed itself to maintain the quality of the product during the term of the agreement, Premier exercised no day-to-day quality control functio . Second, Darby emphasis the observation of the district court that Premier had "failed to establish that IMPREGUM is associated with it in the minds of the consumers of the product," namely dentists and dental technicians. We find neither argument persuasive.

The agreement between Premier and ESPE undeniably circumscribes Premier's rights over the IMPREGUM trademark. Nonetheless, Premier may still own the trademark. It is a well-stablished principle both of contract law and of trademark law that limitations in an otherwise valid assignment do not invalidate it. *See Bandai America, Inc., v. Bally Midway Mfg. Co.*, 775 F.2d 70, 73-74 (3d Cir. 1985), *cert. denied* —— U.S. ——, 106 S.Ct., 1265, 89 L.Ed.2d 574 (1986) (assignment subject to termination upon certain conditions); *Andrew Jergens Co. v. Woodbury, Inc.*, 273 F. 952 (D.Del.1921), *aff'd* 279 F. 1016 (3d Cir.) *cert. denied* 260 U.S. 728, 43 S.Ct. 92, 67 L.Ed. 484 (1922) (rights reserved in assignor); *Model Rectifier*, 220 U.S.P.Q. at 510-11

(same); *In Re George Ball*, 153 U.S.P.Q. at 426-28 (assignment terminable on six months notice); 1 McCarthy, *supra*, at §§ 16.17, 18.1; *see also Restatement (Second) of contracts* § 331 (1981); 6A C.J.S., *Assignments*, § 78 (1975). The assignment between ESPE and Premier is therefore not invalidated by virtue of the limitations it imposes on Premier's rights over the trademark.

Moreover, while the identity of the party exercising day-to-day control over the quality of a product is often relevant to trademark analysis, it is not essential that one perform this function to own a trademark. As we have earlier observed, one need not manufacture a product to possess goodwill in it. In particular, it has been consistently held that if an exclusive distributor is known as the exclusive domestic source and as the one who stands behind the product in this country, it may own and enforce the trademark. *See Prestonettes, Inc. v. Coty, Inc.*, 264 U.S. 359, 368, 44 S.Ct. 350, 351, 68 L.Ed. 731 (1924); *Bourjois v. Katzel*, 260 U.S. 689, 692, 43 S.Ct. 244, 245, 67 L.Ed. 464 (1923); *Leitz, Inc. v. Watson*, 152 F.Supp. 631, 635 (D.D.C. 1957), *aff'd* 254 F.2d 777 (D.C.Cir.1958); *Weil Ceramics & Glass, Inc.*, 618 F.Supp. at 711-13; 1 McCarthy, *supra*, §§ 16.15-16.16.

Finally, we do not believe that the fact that the exclusive distribution agreement preceded the assignment makes the assignment any less valid. *See In Re George Ball*, 153 U.S.P.Q. at 427; *Avedis Zildjian Co. v. Fred Gretsch Manufacturing Co.*, 251 F.2d 530, 532 (2d Cir.1958).

Turning to Darby's second point, we think that the district court's observation that consumers have not been shown to associate IMPREGUM with Premier must be interpreted in light of the court's express finding that Pre-

mier "is identified in the trade as the source through which IMPREGUM is obtained" in the United States. Darby reads these findings to indicate that, while intermediaries in the chain of distribution associate IMPREGUM with Premier, the ultimate customers do not. We do not understand the district court's use of "the trade" to have so limited a meaning. Rather, we believe that the district court concluded that purchasers of IMPREGUM at all levels understand that it comes from a single source even though the ultimate consumers were not shown to have realized that Premier was that single source.

Reconciling these two findings in this way, we are not persuaded by Darby's argument. While we agree that trademark law focuses upon the consuming public, *see Dresser Industries*, 395 F.2d at 462, "it is of little significance to the establishment of trademark rights whether the public can identify correctly by name the owner of the mark." *Weil Ceramics & Glass, Inc.*, 618 F.Supp. at 712 (quoting *Osawa and Co. v. B & H Photo*, 589 F.Supp. 1163, 1179 (S.D.N.Y.1984). Therefore, the consuming public need not know of Premier by name.

What is relvant is whether the trademark has become sufficiently associated with Premier to justify the inference that buyers under that name are its customers. It is enough "if the article be known as coming from a single, though anonymous source." *Coty, Inc. v. LeBlume Import Co., Inc.*, 292 F. 264, 267 (S.D.N.Y.), *aff'd* 293 F. 344 (2d Cir. 1923). *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464 (2d Cir.) *cert. denied* 350 U.S. 832, 76 S.Ct. 67, 100 L.Ed. 743 (1955); *Weil Ceramics & Glass Co.*, 618 F.Supp. at 712; 1 McCarthy, *supra*, at §§ 3.2-3.4.

The statement of the district court relied upon by Darby, when read in context with the court's other findings, indicates only that, while IMPREGUM is seen as emanating from a single domestic source, consumers do not know who that source is. As discussed above, this anonymity has no effect upon Premier's status as the trademark owner.

B. *SECTION 526*

Section 526, quoted in the margin,[6] proscribes the unauthorized importation into the United States of merchandise bearing a trademark owned by a United States citizen. As we have noted, we will uphold the district court's factual determination that the trademark IMPREGUM is owned by Premier, an American corporation. Darby's unauthorized importation and sale of merchandise bearing

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6. Section 526 provides:

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the mannner provided in section 106 of said title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of sections 81 to 109 of Title 15. . . .

the IMPREGUM trademark is therefore apparently subject to injunction by the authority of Section 526(c).

Darby seeks to avoid this conclusion with the argument that Section 526 was intended by Congress to refer solely to foreign-produced *imitations* of goods marked with an American-owned trademark. Darby posits that Section 526 applies only to prevent the fraud or confusion created by the importation of imitation goods. Because the IMPREGUM Darby sells is the same product as is sold by Premier, and because neither Premier nor Darby alters the product or markings after receiving it, Darby suggests that there can be no confusion and therefore Section 526 cannot apply.

We disagree. The statutory language is broad and unambiguous. It declares illegal the unauthorized importation of *any* merchandie of foreign manufacture bearing a domestically-owned trademark. Moreover, the legislative history amply demonstrates Congress's intent to bar imports even of "genuine" goods, where the importation is not authorized by the domestic trademark owner. That legislative history is reviewed in detail in *Coalition To Preserve The Integrity Of American Trademarks v. United States*, 790 F.2d 903, 913-918 (D.C.Cir.1986) and will not be repeated here. *See Vivitar*, 761 F.2d at 1561-68; *Sturges v. Pease*, 48 F.2d 1035, 1038 (2d Cir.1931); H.R.Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922); 62 Cong.Rec. 11603 (August 19, 1922) (remarks of Sen. Sutherland). *Id.* at 11604 (Remarks of Sen. Simmons). *Id.* at 11607 (Remarks of Sens. Lenroot and McCumber); Note, 64 Yale L.J. at 567; Derenberg, *supra*, 47 Va.L.Rev. at 745-47.

Furthermore, *Bourjois v. Katezl*, 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 (1923), decided shortly after Section 526's enactment, but without reference to it, is to the same

effect. In *Bourjois*, the Supreme Court relied upon general principles of the law of unfair competition to find that, although the defendant was importing the same goods as the plaintiff was selling, defendant's sale created confusion as to who stood behind the trademark. "Since the goods which defendant was selling did not 'come from' the plaintiff Bourjois in the sense of sponsorship, while the public would attribute such goods to the plaintiff, defendant's sale . . . infringed plaintiff's rights." *Bourjois*, 260 U.S. at 692, 43 S.Ct. at 245.

As the Court subsequently described the case, *Bourjois* protected a trademark that "indicated that the goods came from the plaintiff in the United States, although not made by it, and therefore [the trademark] could not be put upon other goods *of the same make* coming from abroad." *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368, 44 S.Ct. 350, 351, 68 L.Ed. 731 (1924) (emphasis added);[7] *see Weil Ceramics & Glass, Inc.*, 618 F.Supp. at 704-06.

This broad protection for the American trademark owners of foreign manufactured products has been criticized, especially when invoked by an American subsidiary of the foreign manufacturer. *See Coalition To Preserve The Integrity Of American Trademarks v. United States*, 790 F.2d 903, 913-918 (D.C.Cir.1986); *Vivitar; U.S. v. Guer-*

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7. *Leitz, Inc. v. Watson*, 152 F.Supp. 631, 635 (D.D.C.1957), *aff'd* 254 F.2d 777 (D.C.Cir.1958) (emphasis added), characterized the holding of *Bourjois* as follows:

> The trademark does not necessarily signify the goodwill of the manufacturer. The purchaser of the United States business of a foreign manufacturer and vendor, including goodwill and trademarks, has a right to protect his trademark in the United States against the sale of the *same product from the same manufacturer by others, even if it be by the manufacturer-owner of the trademark abroad, where the product is seen as emanating* in the United States or through the United States trademark owner.

lain, 155 F.Supp. 77 (S.D.N.Y. 1957), *vacated and remanded* 358 U.S. 915, 79 S.Ct. 285, 3 L.Ed.2d 236 (1958), *action dismissed* 172 F.Supp. 107 (S.D.N.Y.1959); Callmann, 43 Va.L.Rev. at 331-33; Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 Trademark Rep. 1225 (1959); Note, 71 Harvard L.Rev. 564 (1958); Note, 64 Yale L.J. 557 (1955). This criticism has also been directed at the application of Section 526 when the American company is not related to the foreign manufacturer. *See, e.g., Note,* 64 Yale L.J. at 563-4, 567. We conclude, however, that the original intent of Congress is clear and that the desirability of a change in the law is an issue for legislative resolution.

Therefore, we conclude that where a trademark is owned and registered in this country by an exclusive distributor who is independent of the foreign manufacturer and who has separate goodwill in the product, the distributor is entitled under Section 526 to prevent the importation even of genuine merchandise obtained from the same foreign manufacturer.

IV

A. *IRREPARABLE HARM*

For a preliminary injunction to issue, there must be a showing of immediate irreparable harm, or a presently existing actual threat of harm. *Continental Group v. Amoco Chemicals Corporation,* 614 F.2d 351 (3d Cir.1980). The harm must be immiment. *Cerro Metal Products v. Marshall,* 620 F.2d 964 (3d Cir.1980).

The district court found that because the IMPREGUM sold by Darby was identical to that sold by Premier,

Premier's goodwill and reputation were not in danger. Nonetheless, the district court found there to be a risk of irreparable harm if other "gray marketeers," following Darby's example, begin to sell the imported IMPREGUM. Were that to happen, the court reasoned, Premier might lose its exclusive distribution contract with ESPE. This, according to the district court, "would constitute irreparable harm."

Such a loss may perhaps be forestalled by a preliminary injunction, but, according to the agreement between ESPE and Premire, ESPE is able to cancel Premier's exclusive selling rights only if unit sales volume to Premier of IMPREGUM in any two year period falls below the volume of the product's single maximum sales year. The record does not provide a basis for evaluating the propinquity of this harm. The only information in the record relates to the sales volume of IMPREGUM by Premier as measured in *dollars*. This information is reproduced in the footnote.[8] The decline in sales volume of IMPREGUM, as measured in dollars, does not suggest that there is any immediate danger that the exclusive distribution agreement will be cancelled. As a result, when the district court issued its opinion in July, 1985, the record could not support the conclusion that there was an immediate threat to the exclusive distributorship.

Nonetheless, we believe that Premier has made a showing of irreparable harm sufficient to support the district

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8. Sales volume of IMPREGUM, 1980-1984 (11 mos.):

Year	*Sales Volume*
1980	$5,188,647
1981	$6,481,790
1982	$7,129,314
1983	$6,825,498
1984	$5,562,460 (11 mos.)

court's order. The district court erred when it concluded that "[a]lthough the defendants would be trading on goodwill established by the plaintiff, goodwill and reputation are not harmed by the sale of identical products." The goodwill associated with the IMPREGUM mark, which is owned by Premier, exists principally because Premier is known as the exclusive domestic source of IMPREGUM and as the company that stands behind the product. The value of the mark to Premier is largely determined by its connotation of a single source who stands behind the product.

Purchasers of Premier's IMPREGUM are confident they can obtain the same product, service, and financial guaranties that they have gotten before. The continued availability of IMPREGUM through sources, like Darby, not associated with Premier must inevitably injure Premier's reputation as the exclusive domestic source of IMPREGUM. This would constitute irreparable injury to the value of the mark because customers would no longer have that same confidence. This is true whether or not the service and financial guaranties are comparable to those offered by Premier. We find this proposition the inevitable corollary of *Bourjois*.

In *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir.1983), which vacated a district court's preliminary injunction because there had been an insufficient showing of irreparable harm, the Second Circuit appeared to require a showing of confusion as to the *origin* of the gray market goods or of injury to the domestic distributor's reputation caused by *inferior* gray market goods sold under the distributor's trademark. 719 F.2d at 46. We respectfully disagree with this view. As previously

indicated, we believe that *Bourjois* and Section 526 make it clear that an American distributor's goodwill can be harmed even by the sale of gray market goods that are *identical* to those sold by the distributor.

The *Bell & Howell* court also believed that the parallel importers, through printed disclaimers, could avoid any claimed confusion as to origin. 719 F.2d at 46. Because we find that the relevant issue is not the ultimate origin of the materials, which is ESPE, but Premier's reputation as the exclusive American source for IMPREGUM, such disclaimers are not effective to avert the threatened injury. *See Model Rectifier*, 220 U.S.P.Q. at 510.

V

The final inquiry for this Court is whether the district court abused its discretion by finding that the preliminary injunction would not substantially harm other parties and that the public interest favored entry of the order.

The district court, as a condition of the preliminary injunction, required Premier to supply Darby with IMPREGUM on the same terms and conditions as Premier's other customers. We are satisfied that this adequately protects Darby's interests.

Furthermore, we agree with the district court that Darby has raised no colorable argument to support its claim that the federal antitrust laws are implicated by this injunction. *See Bell & Howell: Mamiya Co.*, 548 F.Supp. at 1077-78, *vacated on other grounds*, 719 F.2d 42 (2d Cir. 1983); Note, 71 Harvard L.Rev. 564 (1958). Therefore, the public interest is not implicated by this preliminary injunction.

VI

For the reasons set forth above, the order of the district court granting a preliminary injunction will be affirmed.

APPENDIX B

Orders of the United States Court of Appeals for the Third Circuit, *Premier Dental Supply Company* v. *Darby Dental Supply Company, Inc., et al.*, App. No. 85-1468, dated June 24, 1986 and August 8, 1986.

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 85-1468

PREMIER DENTAL PRODUCTS CO.,

vs.

DARBY DENTAL SUPPLY CO., INC., DENTAL WHOLESALERS, INC. AND SPENCER MEADE DENTAL, INC.,

Appellants.

(D.C. Civil 85-1780)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Present: HIGGINBOTHAM and STAPLETON, *Circuit Judges*, and TEITELBAUM, *District Judge**

JUDGMENT

This cause came on to be heard on the record from the United States District Court for the Eastern District of Pennsylvania and was argued by counsel February 12, 1986.

* Honorable Hubert I. Teitelbaum, United States District for the Western District of Pennsylvania, sitting by designation.

On consideration whereof, it is now here ordered and adjudged by this Court that the judgment of the said District Court entered July 17, 1985, be, and the same is hereby affirmed. Costs taxed against the appellants.

ATTEST

/s/ SALLY MRVOS
SALLY MRVOS
CLERK

June 24, 1986

Certified as a true copy and issued in lieu
of a formal mandate on July 16, 1986

Test: M. ELIZABETH FERGUSON

Chief Deputy Clerk, United States Court of Appeals
for the Third Circuit

Order

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

No. 85-1468

PREMIER DENTAL PRODUCTS COMPANY,

vs.

DARBY DENTAL SUPPLY COMPANY, INC., *et al.*,
Appellants.

(D.C. Civil No. 85-1780)

Present: HIGGINBOTHAM and STAPLETON, *Circuit Judges* and TEITELBAUM, *District Judge**

ORDER

IT IS HEREBY ORDERED that appellants' motion to recall the mandate is hereby granted.

By the Court,

/s/ (Illegible) R. STAPLETON
(Illegible) R. STAPLETON
Circuit Judge

Dated: August 8, 1986

* Honorable Hubert I. Teitelbaum, United States District Judge for the Western District of Pennsylvania, sitting by designation.

APPENDIX C

Order and Opinion of the United States District Court, Eastern District of Pennsylvania, *Premier Dental Supply Company* v. *Darby Dental Supply Company, Inc.* (unreported) Civil Action No. 85-1780.

IN THE

UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF PENNSYLVANIA

CIVIL ACTION NO. 85-1780

PREMIER DENTAL PRODUCTS COMPANY,

v.

DARBY DENTAL SUPPLY COMPANY, INC., DENTAL WHOLESALERS, INC. and SPENCER MEADE DENTAL, INC.

ORDER PRELIMINARILY ENJOINING DEFENDANTS

AND NOW, this 16 day of JULY, 1985, after a hearing and upon consideration of the Motion of Plaintiff, Premier Dental Products Company ("Premier"), for Preliminary Injunctive Relief, and the court having made findings of fact and conclusions of law, it is

ORDERED

that defendants, Darby Dental Supply Company, Inc., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc.,

are hereby preliminarily enjoined during the pendency of this action from importing into the United States a polyether impression material under the mark IMPREGUM, which infringes on Premier's federal trademark rights to IMPREGUM, in violation of Section 526 of the Tariff Act of 1930, 19 U.S.C. §1526 and Sections 32, 42 and 43 of the Lanham Act, 15 U.S.C. §§1114, 1124 and 1125; and it is further

ORDERED

that plaintiff post a bond in the amount of $50,000 as security for the payment of costs and damages as may be incurred or suffered by the defendant if found to be wrongfully enjoined.

BY THE COURT

/s/ JOSEPH L. McGLYNN, JR.
JOSEPH L. McGLYNN, JR. J.

ENTERED: 7/17/85

CLERK OF COURT

Memorandum of Decision

IN THE

UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF PENNSYLVANIA

CIVIL ACTION NO. 85-1780

PREMIER DENTAL PRODUCTS COMPANY,

v.

DARBY DENTAL SUPPLY COMPANY, INC., DENTAL WHOLESALERS, INC. and SPENCER MEADE DENTAL, INC.

MEMORANDUM OF DECISION

McGLYNN, J. JULY 16TH, 1985

This action involves the alleged infringement of plaintiff's federal trademark rights and the importation into the United States of material which violates Section 526 of the Tariff Act of 1930, *as amended,* 19 U.S.C. §1526 and Sections 32, 42 and 43 of the Lanham Act, 15 U.S.C. §§1114, 1124 and 1125. Presently before the court is plaintiff's motion for a preliminary injunction.

FINDINGS OF FACT

1. Plaintiff, Premier Dental Products Company ("Premier"), is a Pennsylvania corporation located in Norristown, Pennsylvania.

2. Premier is one of the oldest established manufacturers and distributors of dental instruments, materials and devices in the United States. It employs over 120 people, including a full-time nationwide sales staff of over 30 people. Premier sells dental products to independent dealers, chain dental dealers and mail-order houses in the United States and throughout the world. Premier has approximately 500 customers nationwide.

3. Premier's sales and technical staffs work closely with its dealers as a team to market dental instruments, materials and devices to the dental profession. It promotes its products at dentist association meetings, seminars, clinics, dental dealer road shows and trade association conventions throughout the United States. In addition, it promotes and displays its product lines at dental schools and colleges, and at no less than 60 dental conventions per year. Premier's sales personnel regularly meet with dentists to educate them in the use of the dental products it distributes.

4. IMPREGUM is a patented (U.S. Pat. No. 3,453,242) polyether rubber denture impression material developed and manufactured by ESPE Fabrik Pharmazeutischer Praparate, GmbH ("ESPE"), a West German limited corporation. Unlike other dental impression material, IMPREGUM permits a dentist to obtain an accurate impression in a single procedure. It is used for making impressions for dentures, removable prostheses and full crowns. Researchers have documented that IMPREGUM gives the dentist an extremely quick and accurate impression. Prior to the introduction of IMPREGUM, a dentist had to make numerous remakes with conventional materials

to obtain accurate impressions. Dentists who use IMPREGUM no longer have to do so.

5. On January 30, 1968, IMPREGUM was registered as an ESPE trademark on the Principal Register of the United States Patent and Trademark Office for a term of 20 years. (U.S. Reg. No. 843,294). ESPE filed affidavits in compliance with Sections 8 and 15 of the Lanham Act, 15 U.S.C. §§1058, 1065, and the IMPREGUM trademark is, therefore, incontestable. ESPE marks IMPREGUM impression material to indicate that the mark is registered in the United States Patent and Trademark Office.

6. In 1974 ESPE granted to plaintiff the exclusive rights to develop, market and distribute IMPREGUM in the United States. Under this agreement Premier's exclusive selling rights to IMPREGUM can be cancelled by ESPE if Premier's IMPREGUM sales volume in any period of two consecutive calendar years is less than the volume of IMPREGUM's single maximum sales year.

7. Premier does not sell IMPREGUM directly to dentists. Premier sells to other distributors and the latter sell to ultimate consumers, such as dentists, hospitals and schools.

8. IMPREGUM is extremely simple for a dentist to use. A dentist need only squeeze onto a mixing pad two lines of material (one from a tube of polyether material and the other from a tube of catalyst material), mix them together, place the mixture on a tray, and insert the tray in the patient's mouth. The hardening can be speeded up or slowed down by adjusting the amount of catalyst used.

Dentists learn about this process while in dental school and, therefore, need no assistance or instruction for the proper use of IMPREGUM from Premier, ESPE, or IMPREGUM distributors such as Darby.

9. Premier promotes IMPREGUM extensively at approximately 60 dental conventions each year demonstrating to dentists application techniques. In addition, Premier's sales personnel regularly attend dental dealer clinics and conventions, to promote IMPREGUM and instruct the dental sales trade in its use and application.

10. Since 1984 at the latest, the Premier trade name has been applied to all cartons containing IMPREGUM, which Premier sells and distributes. The Premier trade name is likewise applied to labels contained on IMPREGUM adhesive bottles.

11. Premier formulated and developed its own set of instructions for the use and application of IMPREGUM for the United States market. These instructions have been inserted in IMPREGUM packages produced for Premier for sale and distribution in the United States since the inception of Premier's exclusive distributorship. The instructions ESPE supplies with its European sales of IMPREGUM are in several languages and are not tailored for the U.S. dental market.

12. The instructions contained within the IMPREGUM sold by ESPE in Europe are substantially similar to the instructions used by Premier.

13. IMPREGUM is an essential part of Premier's business. It is Premier's single most important product.

Premier's IMPREGUM sales for the period 1980-1984 (through 3rd quarter), exceeded $30.2 million. IMPREGUM sales represent 30% of Premier's total sales volume.

14. On June 20, 1984 ESPE executed an assignment of the trademark IMPREGUM and its United States registration to Premier. The assignment purported to assign ESPE's entire right, title and interest in the trademark and registration, including the goodwill.

15. ESPE and Premier also entered into a written agreement simultaneously with the trademark assignment. The agreement states that ESPE is willing to assign the registration of IMPREGUM to Premier for the limited purpose of filing suits for infringement of the registration and for unauthorized importation.

16. Under the terms of the assignment agreement Premier granted back to ESPE the sole and exclusive right to manufacture products to be sold under the trademark IMPREGUM for sale in the United States. Premier may not take any action with respect to the trademark or registration which would dilute or damage the goodwill associated with it and, upon thirty days notice, ESPE can demand reassignment of the trademark with or without cause.

17. Although the agreement and the assignment recite that there was "good and valuable consideration," only nominal consideration was tendered by Premier.

18. Premier recorded a copy of the IMPREGUM certificate of trademark registration with the Secretary of

the Treasury and the United States Customs Service in accordance with the Customs Service's rules and regulations, 19 C.F.R. §133.1 *et seq.*

19. Defendants, Darby Dental Supply Company, Inc. ("Darby"), Dental Wholesalers, Inc. ("Dental Wholesalers") and Spencer Meade Dental, Inc. ("Spencer Meade"), are large mail-order dental products suppliers. They sell dental supplies through catalogs they distribute directly to dentists nationwide. Their dental supply catalogs are distributed to every dentist in Pennsylvania. They have distributed their dental supply catalogs throughout the United States to dentists for the last 16 years. The defendants are all New York corporations which are closely affiliated with one another and share the same owners and officers. Defendants have affiliated dental supply companies that sell directly to the dental retail trade, including University Dental Supply, Westchester Dental Supply and Levitt Dental Supply. They are also affiliated with Sherry Dental, a mail-order dental supply company.

20. Between 1980 and 1982 defendants purchased IMPREGUM from Premier and marketed it to dentists and other ultimate consumers.

21. Beginning in 1983 defendants purchased IMPREGUM in Europe and imported it into the United States. All IMPREGUM purchased in Europe is identical to that distributed by plaintiffs except as to the packaging.

22. Defendants and their affiliated companies purchased over $6.6 million worth of IMPREGUM and other dental products from Premier:

Year	*Premier Sales to Defendants*
1980	$1,269,454
1981	1,298,574
1982	1,981,021
1983	1,256,414
1984	804,21

23. After 1982 Premier's IMPREGUM sales to the defendants, dropped precipitously. From 1983 through the 1984 (3rd quarter), defendants' purchases of IMPREGUM amounted to only $179,509. In 1983 their IMPREGUM purchases totaled $165,028. Through Premier's 1983 3rd quarter defendants' IMPREGUM purchases amounted to only $14,479.

24. In 1981 Premier's sales of IMPREGUM to defendants constituted 9.9% of Premier's total IMPREGUM sales volume. In 1982 their share of Premier's IMPREGUM sales volume increased to 15.0%. In 1983, however, defendants' purchases declined by $906,255 over the previous year and constituted only 2.4% of Premier's total IMPREGUM sales volume. In the first eleven months of 1984 Premier's IMPREGUM sales to defendants constituted only 0.26% of its total IMPREGUM sales.

25. The packaging used by the defendants is that packaging used by ESPE in its marketing operations in Europe. It contains the ESPE name and logo and is written in two languages. Until 1984 Premier used packaging designed by ESPE which only contained the ESPE name. After the assignment, the design of IMPREGUM tubes sold through Premier was changed, making the name ESPE more prominent and shown immediately above the mark,

and indicating that Premier is the distributor of the product, so that Premier now distributes "ESPE IMPREGUM."

26. Premier has failed to establish that the trademark IMPREGUM is associated with it in the minds of the consumers of the product.

CONCLUSIONS OF LAW

1. This court has subject matter jurisdiction over the causes of action and personal jurisdiction over all parties.

2. In order for a preliminary injunction to issue the court must consider: a) whether the movant has made a strong showing that it is likely to prevail on the merits; b) whether the movant has shown irreparable harm in the absence of such relief; c) whether such relief will substantially harm other parties; d) where the public interest lies. *Commonwealth of Pennsylvania v. United States Department of Agriculture*, 469 F.2d 1387 (3d Cir. 1972).

3. Since the IMPREGUM sold by the defendants is identical to that sold by Premier, sale of IMPREGUM by the defendants will not cause irreparable injury to Premier's reputation or the goodwill associated with the trademark. The extensive educational and other services provided by Premier are sales promotional tools and are not necessary public services, and the addition of competition is not likely to cause Premier to reduce such services. These services create goodwill and encourage consumption of the product. Although the defendants would be trading on goodwill established by the plaintiff, goodwill and reputation are not harmed by the sale of identical products.

4. Irreparable injury, however, is threatened by the loss of Premier's sole distributorship. Premier's contract with ESPE provides that if Premier's sales dip below a certain point the distributorship can be terminated. If defendants and other retail sellers of IMPREGUM encouraged by defendants' actions import and market IMPREGUM, bypassing Premier, Premier will lose its exclusive distributorship rights. This would constitute irreparable harm.

5. The Genuine Goods Exclusion Act, Section 526 of the Tariff Act of 1930, 19 U.S.C. §1526 provides that it is illegal to:

> import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation . . . created or organized within the United States . . . unless the written consent of the owner is produced at the time of making entry.

Defendants' contention that this act is inapplicable because of the doctrine of "exhaustion" is erroneous.

Under the doctrine of exhaustior a seller of trademarked goods cannot, in the absence of a contractual restriction, prevent or prohibit the buyer from displaying, advertising and marketing the branded goods in a nondeceptive manner. *See, Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125 (1947); *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359 (1924). Defendants argue that since ESPE could not prevent Premier from using the IMPREGUM tardemark under this doctrine, ESPE cannot assign the right to do so to Premier.

The exhaustion doctrine, however, does not apply to international trade when the assignee in a foreign country

has developed a separate goodwill factually independent from that of the mark originator. *Osawa Co.* v. *B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984). *Cf. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923) ("It is said that the trademark here is that of the French house, and truly indicates the origin of the goods. But that is not accurate. It is the trademark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff, although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought." *Id.* at 692.)

Premier has developed a goodwill separate from that of ESPE. Premier has provided seminars and instructions to those wishing to learn about the product. It has provided a toll-free telephone number for the use of those with questions or problems with the product and is identified in the trade as the source through which IMPREGUM is obtained.

6. If there was a valid assignment of the trademark to Premier, Premier has the right to prevent the importation of goods bearing that mark by other parties. A trademark may not be assigned alone. Such an assignment is known as an assignment in gross. A trademark may only be transferred with the business with which the mark has been associated. *United Drug Co.* v. *Theodore Rectanus Co.*, 248 U.S. 90 (1918); *Mr. Donut of America, Inc.* v. *Mr. Donut, Inc.*, 418 F.2d 838 (9th Cir. 1969).; *Dresser Industries. Inc.* v. *Heraeus Engelhard Vacuum Inc.*, 395 F.2d 457 (3d Cir. 1967), *cert. denied*, 393 U.S. 934. No tangible assets of the business need be transferred, but the trade-

mark assignment must carry with it the assignment of goodwill in order to transfer title. 15 U.S.C. §1061, *Greenlon, Inc. of Cincinnati* v. *Greenlawn, Inc.*, 542 F. Supp. 890 (S.D. Ohio 1982).

7. The trademark assignment between ESPE and Premier states that it transfers the goodwill of the trademark in the United States. Defendants argue that the transfer was a sham and did not transfer anything of value since it can be rescinded at any time. ESPE retains control over the quality of the product and Premier must consult with ESPE before taking any action with respect to the trademark. Limitations in the assignment do not invalidate it. *Osawa & Co.* v. *B & H Photo*, 589 F. Supp. 1163 (S.D. N.Y. 1984); *In re George J. Ball, Inc.*, 153 U.S.P.Q. 426 (T.T.A.B. 1967).

8. The goodwill of the trademark IMPREGUM in the United States has been transferred to Premier. The exclusive distributorship allowed Premier to use, develop and take advantage of the trademark's goodwill. The assignment did not simply transfer the right to sue, it gave Premier legal title to the goodwill that it has used and the right to protect the exclusive distributorship. Premier has the interest in the goodwill associated with IMPREGUM that is required in a transfer of the trademark. This transfer of rights to an exclusive distributor is not an unusual practice and such a distributor has a sufficient interest to uphold the transfer. *See generally*, 1 McCarthy, *Trademarks and Unfair Competition* §16:16B (2d ed. 1984). *Osawa; Model Rectifier Corporation* v. *Takachiho International, Inc.*, 221 U.S.P.Q. 502 (9th Cir. 1983).

9. The harm that will result to as the result of the imposition of a preliminary injunction is that they will be unable to obtain IMPREGUM for resale to their customers unless they can obtain it through Premier. This could cause customers to become dissatisfied with their services and could cause harm to their reputation in the community. In view of the equitable nature of a preliminary injunction, it would be unjust to impose such irreparable harm on the defendants. The only way to prevent this harm is to guarantee that a supply of IMPREGUM will be available to them to supply to their customers. Since Premier is in the business of selling IMPREGUM to retailers and since they have previously sold it to the defendants, a requirement of this preliminary injunction will be that Premier shall sell IMPREGUM to defendants on the same terms and conditions as Premier's other customers. This will eliminate the possibility of irreparable harm to defendants.

10. Defendants argue that the public interest demands that this injunction be denied since Premier is engaging in a price fixing conspiracy with ESPE in violation of the antitrust laws. Although the public interest is furthered by the discouragement of price-fixing conspiracies, this must be done through a finding of a violation of the antitrust laws, not through a manipulation of the trademark laws. A trademark owner is granted a natural monopoly which does not violate antitrust laws unless it is used to gain control of the relevant market. *Trixler Brokerage Co.* v. *Ralston Purina Co.*, 505 F.2d 1045 (9th Cir. 1974); *Model Rectifier*. In any event, there is presently no evidence in the record to support this contention and, therefore, the public interest is not implicated in this context.

11. Since plaintiff has established a reasonable likelihood of prevailing on the merits and that there will be irreparable harm in the absence of injunctive relief, and since sustantial harm will not be done to other parties and the public interest does not require otherwise, a preliminary injunction will be granted to the plaintiffs enjoining defendants from important IMPREGUM into the United States, with the condition that Premier make available to the defendants a sufficient supply of IMPREGUM to satisfy their requirements at the price at which IMPREGUM is normally sold to Premier's other customers.

APPENDIX D

Statutes and Regulations cited

19 U.S.C. 1526

19 C.F.R. 133.21

§ 1526. Merchandise bearing American trademark

Importation prohibited

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

Seizure and forfeiture

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

Injunction and damages

(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of sections 81 to 109 of Title 15.

Exemptions; publication in Federal Register, forfetures; rules and regulations

(d)(1) The trademark provisions of this section and section 1124 of Title 15, do not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (A) such articles are within the limits of types and quantities determined by the Secretary pursuant to paragraph (2) of this subsection, and (B) such person has not been granted an exemption under this subsection within thirty days immediately preceding his arrival.

(2) The Secretary shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trade-marked articles, the Secretary shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for personal use.

(3) If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subsection is sold within one year after the date of importation, such article, or its value (to be recovered from

the importer), is subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent is not subject to the provisions of this paragraph.

(4) The Secretary may prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection.

Merchandise bearing counterfeit mark; seizure and forfeiture; disposition of seized goods

(e) Any such merchandise bearing a counterfeit mark (within the meaning of section 1127 of Title 15) imported into the United States in violation of the provisions of section 1124 of Title 15, shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws. Upon seizure of such merchandise, the Secretary shall notify the owner of the trademark, and shall, after forfeiture, obliterate the trademark where feasible and dispose of the goods seized—

(1) by delivery to such Federal, State, and local government agencies as in the opinion of the Secretary have a need for such merchandise,

(2) by gift to such eleemosynary institutions as in the opinion of the Secretary have a need for such merchandise,

(3) more than 1 year after the date of forfeiture, by sale by appropriate customs officers at public auction under such regulations as the Secretary prescribes, except that before making any such sale the Secretary shall determine that no Federal, State, or local government agency or eleemosynary institution has established a need for such merchandise under paragraph (1) or (2), or

(4) if the merchandise is unsafe or a hazard to health, by destruction.

§ 133.21 Restrictions on importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2 (d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner;

(4) The objectionable mark is removed or obliterated prior to importation in such a manner as to be illegible and incapable of being reconstituted, for example by:

(i) Grinding off imprinted trademarks wherever they appear;

(ii) Removing and disposing of plates bearing a trademark or trade name;

(5) The merchandise is imported by the recordant of the trademark or trade name or his designate;

(6) The recordant gives written consent to an importation of articles otherwise subject to the restrictions set forth in paragraphs (a) and (b) of this section, and such consent is furnished to appropriate Customs officials; or

(7) The articles of foreign manufacture bear a recorded trademark and the personal exemption is claimed and allowed under § 148.55 of this chapter.

(d) *Exceptions for articles bearing counterfeit trademarks.* The provisions of paragraph (c)(4) of this section are not applicable to articles bearing counterfeit trademarks at the time of importation (see § 133.24).

APPENDIX E

62 Cong. Rec. 11,602-11,605 (Senate Debate on Section 526 of the Tariff Act)

H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922)

CONGRESSIONAL RECORD
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The President pro tempore. The Secretary will now state the amndment in section 526.

The Reading Clerk. On page 384, after line 14, section 526 was inserted, reading as follows:

> SEC. 526. (a) That it shall be unlawful to import import into the United States any merchandise if such merchandise, or the label, sign, print, package, wrapper, or receptacle bears a trade-mark registered in the Patent Office by a person domiciled in the United States, under the provisions of the act entitled "An act to authorize the registration of trade-marks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same," approved Febrary 20, 1905, as amended, if a copy of the certificate of registration of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 27 of such act, and unless written cosent of the owner of such trade-mark is produced at the time of making entry.
>
> (b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.
>
> (c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade-mark and shall be liable for the same damages and profits provided for wrongful use of a trade-mark, under the provisions of such act of February 20, 1905, as amended.

The President pro tempore. The question is on concurring in the amendment made as in Committee of the Whole.

Mr. Moses. Mr. President, the history of this amendment is interesting. It was written by a lawyer well known in the precincts of the Capitol; it was inserted in the bill originally, without hearing, upon the votes of four Senators; it was removed from the bill by a disagreeing vote on the 6th of June, upon an understanding, as I believed, that if it were to be taken up again it should be taken up as a separate measure on its own merits and before the Committee on Patents, which properly has jurisdiction of the subject matter. It was put back in the bill among the myriad amendments brought in by the committee the other morning after their midnight session, and it may be fairly classified now as one of the midnight amendments, like the "midnight judges" of the John Adams administration.

It has no place, Mr. President, in a tariff bill. It is a matter particularly of international relations, bearing upon our international treaty and trade-mark conventions, and is a proper subject for either the Committee on Foreign Relations or the Committee on Patents to discuss and consider. It contravenes our treaty obligations; it constitutes but another diamond-studded link in the chain with which the Committee on Finance seems bound to adorn the buxom bosom of certain interests in this country. Especially, Mr. President, it runs counter to two pieces of legislation already pending in this body, one introduced by the senior Senatory from Kentucky [Mr. Stanley], and pending before the Committee on Patents, and the other introduced by the senior Senator from Alabama [Mr. Underwood], and pending before the Committee on the Judiciary. The adoption of this amendment might contravene the effect of either of those measures, and certainly would conflict with the great and important questions which those measures involve.

In addition, Mr. President, the whole subject matter involved in this amendment is now before the courts of the United States for determination. A case involving its entire principle has been heard in the circuit court of appeals and is now on its way to the Supreme Court of the United States for final determination. I submit to the Senate that if by an obscure amendment in a tariff bill, put in by the votes of four Senators, as I have indicated, we are to interfere in litigation and are to determine causes before the courts, there will be open to Congress new avenues of activity for lawyers, and we shall be besieged constantly for amendments to bills which will affect the causes of clients and the fees of attorneys.

Mr. President, if this measure is to be determined at all, if it is to be taken up by the Senate at all, it should not be taken up under conditions such as now confront the consideration of this amendment, when only a few minutes may be permitted to discuss the great constitutional and legal questions involved and when the subject matter of the whole amendment belongs properly to other committees.

I trust that the Senate will refuse to concur in the amendment as made in the Committee of the Whole, in order that the subject matter may be remitted to the proper hands, those of the Committee on Foreign Relations or the Committee on Patents.

Mr. Kellogg. Mr. President, candidly I think if Senators understand this amendment they will not adopt it upon this tariff bill.

The amendmnt provides, in substance, that it shall be unlawful to import into the United States any merchandise if such merchandise, or the label, sign, print, package, wrapper, or receptacle bears a trade-mark registered in the Patent Office by a person domiciled in the United States.

Mr. President, this is the first time I ever heard of in legislation that the United States proposed to enforce the trade-mark laws by a prohibition and an embargo against shipments. Remember, Mr. President, we have reciprocal treaties on trade-marks with every nation in the world. I wish I had time to recite them; but the substance of those treaties is that trade-marks of the United States may be registered in those countries and their trade-marks registered here as provided by law, and that rights of action are given to foreign citizens in our courts, and rights of action in foreign countries by our citizens to enforce their rights under trade-marks if there is any infringement. I never before heard, however, that because it was claimed that goods were being shipped in here in violation of a local trade-mark there should be an embargo and no chance whatever to test the matter in the courts. Why, there are any number of suits where foreigners have come here and under the treaties have brought suits to enforce their rights against Americans where they claimed there were conflicting trade-marks.

Take the case of France. Here is one clause of the French treaty, and the treaties with all countries are substantially the same:

> Every reproduction in one of the two countries of trade-marks affixed in the other to certain merchandise to prove its origin and quality is forbidden and shall give ground for an action for damages in favor of the injured party, to be prosecuted in the courts of the country in which the counterfeit shall be proven, just as if the plaintiff were a subject or citizen of that country.

Suppose a citizen of France claims the right to ship in a certain class of goods with a certain trade-mark and an

American citizen claims that he has a trade-mark. There is a dispute for the courts, and we legislate that the Frenchman can not even ship into this country his goods because the American has a trade-mark registered in the Patent Office. Why, Mr. President, that will violate every treaty we have with every country in the world.

I do not care whether it applies to dyes or not; this amendment applies to everything. I do not know who drew it; I do not know who got it on the bill; but we ought to hesitate, under a five-minute rule, to adopt an embargo against any foreign country shipping goods here where an American claims he has a trade-mark upon them.

Mr. Sutherland. Mr. President, as to the origin of this proposed legislation. I would refer the Senate and the Senator from New Hampshire to the report made by the American Bar Association, the section of it sitting upon this question, in the twenty-ninth paragraph of which, on page 34, are set out all of the provisions of this proposed section of this bill. It is recommended by the American Bar Association, after a careful consideration of the entire question, not only in relation to its effect upon our commerce but in relation to its effect upon our international relations, the Senator from Minnesota to the contrary notwithstanding.

Mr. President, all that this paragraph does is to prevent fraud, and I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trade-marks.

Mr. Curtis. Mr. President—

Mr. Sutherland. It prevents, and its only aim is to prevent, a palpable fraud. The treaties which are referred to by the Senator from Minnesota are for the purpose of protecting citizens of all these countries in the enjoyment of trade-mark rights.

A trade-mark does not provide a monopoly. Mr. Justice Pitney, in a celebrated case, delivered himself of this opinion.

In the case of United Drug Co. *v.* Rectanus (248 U. S. 90) Mr. Justice Pitney said:

> A trade-mark in truth * * * confers no monopoly whatever in a proper sense, but is merely a convenient means for facilitating the protection of one's good will in trade by placing a distinguishing mark or symbol—a commercial signature—upon the merchandise or the package in which it is sold.

The prohibition against the shipping over to this country of merchandise under specific trade-marks which have been bartered away to citizens of the United States does not create a monopoly at all, nor does it prevent the shipping over to this country of the identical merchandise, having the same constituent elements as are protected by the trade-mark.

For instance, American citizens have purchased the trade-mark of the Hunyadi Janos water. If this section becomes a law the owners of that water on the other side can not ship over that water under that trade-mark. They can ship over shiploads of the same water, having the same effect upon the human anatomy, without any infringement of this law at all. It does not provide a monopoly. It only protects a property right which has been sold, and in the

enjoyment of which every citizen of the United States ought to be willing to see the purchaser protected.

Mr. Lenroot. Mr. President, just a word.

As I understand this language, an American citizen goes to the city of Toronto and purchases some goods of American manufacture, bearing an American trade-mark, that he would prefer to purchase rather than some other goods not made in the United States. He puts the merchandise in his grip and crosses the line with it. Under this section that merchandise must be confiscated. Am I correct?

Mr. Sutherland. And it ought to be.

Mr. Lenroot. And it ought to be? If an American exports merchandise to Canada, having there a trade-mark, and an American citizen buys that merchandise in Canada with that trade-mark, and is willing to pay the duty that may be imposed, if there be any, it is to be confiscated?

Mr. Edge. Mr. President, may I ask the Senator to go a step further? Suppose the American citizen purchased and brought back to this country a product of foreign manufacture, with a foreign trade-mark, and paid the duty on it in the regular way: Would he be entitled to bring it in?

Mr. Lenroot. No; if that happened to a trade-mark that was registered by some one domiciled in the United States, he would not be. Take another case along the Canadian border—

Mr. Kellogg. Mr. President, will the Senator permit an interruption?

Mr. Lenroot. Just a moment. Wonder flour is one of the best products of flour we have. Along the Canadian border an American citizen crosses the line and buys a sack of Wonder flour. Unless he has the written permission of the maker of that flour, that sack of flour is to be confiscated under this paragraph.

Surely the Congress of the United States is not going to enact any such legislation as this.

Mr. McCumber. Mr. President, this will be subject to an amendment now, I understand. I can offer an amendment to the proposed amendment?

The President pro tempore. It is open to amendment.

Mr. McCumber. I move, after the word "merchandise" —I think it will be in line 2 of the amendment—to insert "of foreign manufacture."

The President pro tempore. The question is upon agreeing to the amendment proposed by the Senator from North Dakota to the amendment made as in Committee of the Whole.

Mr. Moses. Mr. President, I merely wish to point out that that amendment does not cure the great vice of the whole amendment, which is—

Mr. McCumber. I will discuss that, Mr. President, if I can get this amendment agreed to.

Mr. Pomerene. I ask to have the amendment stated.

The President pro tempore. The Secretary will state the amendment.

The Principal Legislative Clerk. In the second line of the section, after the word "merchandise," it is proposed to insert "of foreign manufacture," so that the section would read:

> That it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise—

And so forth.

Mr. Moses. Mr. President, is the Senator from North Dakota holding the floor?

Mr. McCumber. No.

The President pro tempore. Does the Senator from North Dakota yield to the Senator from New Hampshire?

Mr. McCumber. I yield the floor. Then I want to discuss the amendment, after the Senator is through.

Mr. Moses. Mr. President, I merely wish to point out that even the amendment proposed by the Senator from North Dakota dos not cure the vice of the general amendment, which is an interference with the proper, orderly proceedings now taking place in the courts of the United States. My chief objection to the amendment as it stands is that its main purpose will be to interfere with litigation now going on; and I protest that the Congress of the United States should not be used for the purpose of advancing the cause of litigants or attorneys.

Mr. McCumber. Mr. President, I want to say but one word in reference to the amendment.

I offered the amendment to meet the possible case suggested by the Senator from Wisconsin [Mr. Lenroot]. The question now is whether this amendment is a vicious amendment of itself?

As shown, the courts have held that we can not prevent any product being shipped into the United States if it is in violation of a trade-mark where the foreign maker has sold trade-mark and all, patent and everything, in the United States.

I am going to give but a single illustration. I will take Bayer's aspirin. Suppose not only the patent but the trademark, which is "Bayer's Aspirin" with a red cross, is sold to an American concern outright. The patent will defend against any importations so long as the patent lasts; but suppose, now, the patent expires. Then the German firm, notwithstanding that they have sold all rights, including

the trade-mark, begin to ship in Bayer's Aspirin with the same kind of a trade-mark that they had before, although the right is owned in the United States. According to the decision that was read by the Senator from West Virginia the American purchases of these rights are entirely unprotected, and this is to give the opportunity to protect the American purchaser. That is all there is to it, and there is no treaty against it.

Mr. Simmons and Mr. Wadsworth addressed the Chair.

The President pro tempore. Does the Senator from North Dakota yield to the Senator from North Carolina?

Mr. McCumber. I simply give this as an illustration. I do not know who or what might have purchased these particular articles. I do not care about going into that.

Mr. Wadsworth. Mr. President—

Mr. McCumber. I yield.

Mr. Wadsworth. Will the Senator, if he can, state the parties to this suit?

Mr. Simmons. Mr. President, a point of order.

The President pro tempore. The Senator will state his point of order.

Mr. Simmons. I addressed the Chair, and the Chair asked if the Senator from North Dakota yielded to me. The Senator from New York was directing a question to the Senator from North Dakota without getting the consent of the Chair, according to the rule. He took me off my feet.

I want to ask the Senator from North Dakota, who has just taken his seat, one question with respect to this matter. I am asking it because when the matter came up a few days ago we had a division, and this side of the Chamber voted for this paragraph. I do not know whether we

voted under a misapprehension or not. I do not think I did, but some other Senators on this side think probably they did.

As I understand the Senator, this provision does not prohibit the importation into this country of foreign goods at all, unless the particular importation bears a trade-mark which is the property of an American citizen?

Mr. McCumber. That is right.

Mr. Simmons. It is not a prohibition against the importation?

Mr. McCumber. Not at all.

Mr. Simmons. The article may be imported ad libitum, but it must not bear the trade-mark?

Mr. McCumber. It is a prohibition against the violation of his contract.

Mr. Simmons. Have you not all through the bill written provisions to the effect that unless certain things were done with reference to labels, stamps, and things of that sort the articles should not be permitted to enter the American market?

Mr. McCumber. In a thousand ways we have guarded against fraud, and this one among the thousand.

Mr. Simmons. Mr. President, I voted for the provision upon the rising vote to which I referred, but I understood this was about the situation, which had been represented to me by persons interested in this matter: It was brought to my attention by some West Virginians who were interested in this subject. I give it merely as an illustration of the principle. As I understood from them, the Bayer Co., of Germany, produced aspirin. It had a patent. A New York corporation was organized, financed entirely by German capital, and became the owners of that

patent and that trade-mark in the United States. As long as the patent existed, as the Senator said, they were absolutely protected, but when the patent expired they were protected only to the extent of their trade-mark.

The Alien Property Custodian seized the property of that corporation because it was composed of Germans; he sold it at auction, and these West Virginia people bought it, paying $5,000,000 for it, I believe.

Mr. Sutherland. Three million dollars.

Mr. Simmons. The thing of large value in the purchase, if not of chief value, was the trade-mark with reference to aspirin. Now it is proposed not to put any prohibition upon the imports of aspirin made by the Bayer Co., of Germany, or aspirin made by any other foreign company, but if the Bayer Co. puts the trade-mark which now belongs to American citizens upon those goods the goods are to be excluded, because it is an invasion of the rights of American citizens. Take the trade-mark off, and though the product is the same as the one produced by the American company it can come in. The importation of the article is not prohibited. You merely prohibit the use of the trade-mark which belongs to American citizens.

Do you not do that with reference to an American citizen duplicating the trade-mark of another American citizen? You protect a citizen against that sort of an invasion of his rights.

The President pro tempore. The time of the Senator has expired.

Mr. Pomerene. Mr. President, it is my purpose, if under my pair I can get a transfer, to vote for this amendment as well as for the amendment offered to the amendment by the Senator from North Dakota.

I have heard a statement of the facts substantially like that made by the Senator from North Carolina. As I understand it, the title to this trade-mark was acquired in a perfectly legitimate way and in accordance with the law as it existed at the time. I understand also that, under the present law, if a patented article is brought to the customs office which infringes an American-owned patent, it can be excluded. I think I am right about that.

It seems to me that perhaps there is a doubt as to whether the same principle would apply to a trade-mark. As I understand it, a valuable part of the asset which was acquired by this company—not the valuabe part, but a valuable part—was the trade-mark. It is not proposed under this legislation to prohibit the importation of the article of manufacture in question. It is proposed in this amendment to prevent foreign manufacturers from entering into this market or selling in this market articles when they bear this particular trade-mark.

What is wrong about it? The Senator from New Hampshire refers to some pending litigation. If this amendment is agreed to it will not determine that litigtaion. That litigation will be determined by the state of the law as it existed at the time the facts arose which were involved in the controversy. This amendment, if it becomes the law of the land, will be a declaration of what the Congress of the United States believed should be the national policy hereafter.

That is all there is in it, and it seems to me, under the circumstances as I understand them, this is simply an exercise of good faith on the part of Congress toward the people who have acquired the rights to this trade-mark under laws heretofore enacted by the Congress of the United States.

Mr. Edge. Mr. President, I would like to have one point made clear and I will address a question as to the operation of this amendment to the chairman of the Finance Committee, who can answer in my time.

If an American wholesale house, for instance, secured the selling rights of a foreign-produced article with a trade-mark, and imported large supplies of whatever the product might be, not obtaining any copyright for American distribution but simply acting as a selling agent, as it were, if I make myself clear, for some foreign house producing, say, Pears' soap, or whatever the foreign product may be, would this amendment, if adopted, serve in any way to hinder the importation and sale of that article under that foreign trade-mark?

Mr. McCumber. Certainly not, because there must be one domiciled in this country who is the owner of the trade-mark, and the trade-mark must be registered in the United States. Therefore it would not affect anything as to which there was not a trade-mark owned here and registered in the Patent Office in the United States.

Mr. Edge. In other words, when an American purchased foreign goods for sale, the trade-mark is automatically registered in the United States? Is that what the Senator means?

Mr. McCumber. No; I mean that there are cases in which not only is there a patent of a foreign country sold to an American or an American firm, and having the patent, of course they can be protected. But the court in a late decision, which I shall not take the time now to discuss because I have not the time, has held that a trade-mark did not protect a party at all against importations of the article from the very firm which sold it, stating that the trade-mark is simply to indicate the character of the goods,

or the maker, so that we will know what the goods are; and the courts will not protect the individual.

Mr. Edge. Then, as I understand, ether a selling agent or any wholesale house on this side, not necessarily a selling agent but simply one purchasing a consignment of foreign-made goods with a trade-mark, would in no way be interfered with in selling those goods on this side?

Mr. McCumber. Certainly not.

Mr. Lenroot. Mr. President, perhaps I do not understand the facts of this situation. I want to ask the Senator from North Dakota a question. We will assume that Pears' soap, to which he has referred, is not registered in the United States. It is sold in the general markets throughout the world, but the makers of Pears' soap desire a monopoly in the United States. They have American agents who register a trade-mark of Pears' soap here in the United States.

I want to inquire whether any American could purchase Pears' soap abroad and import it without the written consent of their agent here in the United States, and if not, why not? There is no fraud, no deceit. It is the same identical article with the trade-mark registered here protecting the maker of the article. I yield to the Senator to answer.

Mr. McCumber. Mr. President, if there has been no transfer of trade-mark, that presents an entirely different question. But suppose the trade-mark is owned exclusively by an American firm or corporation. The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.

Mr. Lenroot. This is an international trade-mark of Pears' soap, registered here by an American, with American domicile. Under it Pears' soap could not be bought in the markets of the world and sold here without the written consent of the Pears Soap Co., or their agent domiciled here in America.

The President pro tempore. The question is upon agreeing to the amendment offered by the Senator from North Dakota [Mr. McCumber] to the amendment made as in Committee of the Whole.

On a division, the amendment to the amendment was agreed to.

The President pro tempore. The question is, Will the Senate concur in the amendment made as in Committee of the Whole?

Mr. Moses. On that I ask for the yeas and nays.

The yeas and nays were ordered, and the reading clerk proceeded to call the roll.

Mr. Glass (when his named was called). I transfer my pair with Senator from Vermont [Mr. Dillingham] to the Senator from Texas [Mr. Culberson] and vote "nay."

Mr. Harrison (when his name was called). On this vote I am unable to obtain a transfer of my pair with the Senator from West Virginia [Mr. Elkins]. I therefore withhold my vote.

Mr. Curtis (when Mr. La Follette's name was called). I was requested to announce that on this question the Senator from Wisconsin [Mr. La Follette] is paired with the Senator from Michigan [Mr. Townsend]. If present, the Senator from Wisconsin would vote "nay" and the Senator from Michigan would vote "yea."

Mr. McCumber (when his name was called). Transferring my general pair with the junior Senator from Utah [Mr. King] as on the previous vote, I vote "yea."

Mr. Pomerene (when his name was called). Again announcing my pair with my colleague [Mr. Willis], I have been advised that if he were present he would vote as I intend to vote. I therefore feel at liberty to vote. I vote "yea."

Mr. Trammell (when his name was called). In the absence of my pair, the senior Senator from Rhode Island [Mr. Colt], being unable to obtain a transfer, I withhold my vote.

Mr. Watson of Georgia (when his name was called). I have a general pair with the senior Senator from California [Mr. Johnson]. He being absent, I withhold my vote.

Mr. Watson of Indiana (when his name was called). Making the same announcement as before, I vote "yea."

The roll call was concluded.

Mr. Lodge (after having voted in the affirmative). I observe that my pair, the senior Senator from Alabama [Mr. Underwood], is absent. I transfer that pair to the Senator from Maryland [Mr. Weller] and allow my vote to stand.

Mr. Curtis. I was requested to announce that the junior Senator from Illinois [Mr. McKinley] is paired with the junior Senator from Arkansas [Mr. Caraway], and that the junior Senator from Missouri [Mr. Spencer] is paired with the senior Senator from Georgia [Mr. Harris].

The result was announced—yeas ~~44~~, nays 15, as follows:

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67TH CONGRESS, *2d Session.*

HOUSE OF REPRESENTATIVES.

REPORT No. 1198.

Amendment No. 2084: A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark, in order to protect the American manufacturer or producer; and the House recedes with an amendment requiring that the trade-mark be owned, at the time of the importation, by a citizen of the United States or by a corporation or association created or organized within the United States.